ESSAYS AND SPEECHES

Charles G. Dawes

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BY

CHARLES G. DAWES

WITH EXTRACTS FROM THE JOURNAL OF
RUFUS FEARING DAWES AND AN ADDRESS UPON
THE ARMY OF THE POTOMAC BY
GENERAL R. R. DAWES

With Portraits

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Rufus F. Dawes

RUFUS FEARING DAWES

Born December 12th, 1890

Died in the waters of Lake Geneva

September 5th, 1912

ESSAYS AND SPEECHES

TRIBUTE TO RUFUS FEARING DAWES

By HIS FATHER

(Read at the funeral by Rev. W. T. McElveen)

The most of those here assembled are the personal friends and acquaintances of my dear son. So far as the outer world is concerned, his promising life, cut off so early, must ever be wrapped in obscurity. But I, his father, owe him one last and solemn duty, to project the high lesson of his life, as far as lies within my power, by using this last assemblage of his friends, when their minds and grieving hearts will the more indelibly receive the final impressions of his memory.

Rufus's business career covered his last four summer vacations, dedicated voluntarily by him to preparation for his life's work. Passionately fond of sports and of social recreation, to which the college work of the balance of the year legitimately entitled him, he gave them up and spent in the comparative solitude of a small engineering corps in western South Dakota his summer vacation of four years ago. Here he lived uncomplainingly a life of terrible hardship, without my knowledge until it was over. Every man in the corps went down with malignant typhoid fever. Rufus was the last man up, and for days, while suffering with the fever himself, took charge of and ministered to the balance of the camp, finally succeeding in moving them to a place of comparative comfort. He then temporarily collapsed, only to pull himself together again, and, alone and sorely stricken, set out on the long journey home. It

is hard to speak of the suffering of the fifty-mile wagon trip to the railroad station, of his long wait there, of the terrible railroad trip home when he was unable to sleep or eat, and of his final arrival, which was our first knowledge of his trouble. For weeks, without a word of complaint, he fought the fight of life and death, and then, when relief and apparent convalescence came, it was only to usher in a relapse for as long and severe a second attack.

Gaunt and haggard, yet happy and cheerful, he finally left the sick-room. He saved out of his compensation for his surveying work the sum of sixty dollars. Of his own initiative and without suggestion, he devoted this money to the following purposes: He made a close contract with his friends in the wholesale department of Jevne & Company for twenty baskets of provisions at one dollar each, which, on Christmas Day, he personally delivered at the houses of the poor. Of the remaining forty dollars he expended twenty dollars for a Christmas present for his sister, and kept twenty dollars for his personal use.

The next summer, with his dear friend Melvin Ericson, he went to Seattle and took a position in the gas company in which my brothers and I are interested. The superintendent, who is one of our personal friends, endeavored to persuade the lads to accept salaries large enough to enable them to live at the best hotel; but Rufus and Melvin declined upon the score that their services would not fairly command the sum offered, took a lesser one, and secured board and lodging elsewhere for twenty-five dollars per month each.

The next summer vacation Rufus spent in the wholesale plumbing establishment of his close friend, Donald Raymond. With his characteristic masterfulness, he announced to Donald that he would fix his own salary at sixty dollars per month, which he believed he could earn in the sales

department. In this place each month he turned profits into the firm amounting to two or three times his salary.

This present summer he spent in the gas works at Chicago Heights under the tutelage of his friends, Walter F. Booth and Verne Cutler. During the hot summer days, with the temperature 110 degrees Fahrenheit in the gas house, Rufus Fearing learned to make gas. He also mastered gas analysis, and in the last week of his work was given charge of the entire plant.

The last two weeks of this present vacation, which proved to be the last two of his life, he gave up to recreation, with the great nervous energy with which he did everything.

But I pass now to the more important things. My boy was only in the beginning of his business career, while the career of which I am to speak is complete. The Lord gave him ample time fully and wholly to complete it.

The truly great character must unite unusual strength and determination with great gentleness. My boy was imperious. He recognized no superior on earth, and yet was the tender and intimate friend of the weak and humble. I have taken him with me among the greatest in the nation and looked in vain for any evidence in him of awe or even curiosity. He has taken me, asking me to help them, among the poor and lowly of earth.

He loved his friends, and but recently told his mother that our house was all through the coming years to be the stopping-place for his college friends passing through the city. How grateful our lonely hearts will be to them now if they will only accept this invitation and sleep in his room and fill for a little time the empty chair.

He commenced early in life to set himself against the crowd, for no man rises to real prestige who follows it. Of his own initiative, he joined the church. For a long time he

taught a Bible class of boys at Bethesda Mission. He did not smoke, nor swear, nor drink. He was absolutely clean. Yet, in his stern opposition to the drift, he mingled tolerance in just that quality which contributed to real power to be used in opposition, and for that purpose alone. He organized systematically rescue squads for weaker boys at college who were wavering before strong but evil leadership. Against the boy who sought to lead astray the weaker, he set his face like steel.

Like every born leader he had his many warm friends, but if Rufus Fearing ever had a bitter enemy I have yet to hear of him. His kindness, sincerity, and good humor disarmed hatred. I never saw him angry. In twenty-one years he never gave me just cause for serious reproach.

He was absolutely natural in any environment, great or humble. He was extremely ambitious. He was extremely proud. Upon one occasion, years ago, when I mistakenly reproached him, he patiently explained my error and then peremptorily demanded and received an apology from me.

I have noticed that one of the characteristics of the thoroughbred is the refusal to accept or recognize a handicap, which he always regards as a self-confession of inferiority. The man who accepts a handicap is beaten before the race commences. In any matter to which Rufus Fearing set himself seriously he saw no possible measure of his full abilities or efforts except in the leading contestant. He recognized no victory in a second or third prize. It was not altogether modesty which kept him so silent about his marked achievements, but because a high average of proficiency, which left the field far behind, only brought him into closer self-comparison with the few winners. The natural leader in life, while he keeps his head, keeps his eyes only on the runners in front, and not on the multitude behind. That is why the truly great are so often humble.

His mother and I never knew, until we read it in the yearbook, of Rufus's athletic successes at Lawrenceville, or that he was captain of the fencing team at Princeton, or that he had this or that distinction. He never talked about his achievements in any line of work, study, or recreation, for the reason that he himself never regarded them as important or worth while. But with almost reckless intrepidity he sought in his friendly conflicts a contact with any exceptional individual he could find. In the fact that contact means comparison he saw only the opportunity for taking his own full measurement, even though it might prove disappointing or defeat prove bitter.

But under these continuing and often disappointing contests, moral, physical, and mental, there worked out, under the inexorable laws of human nature, a splendid and complete young Christian gentleman. And the lesson of this complete life is that this can be done by a young man without his being a prig, without his failing to be a "good fellow," without his bending to debasing environment.

My boy lived long enough to "win out." Whatever the years would have added would be only material. In a man's character is his real career.

He died suddenly in the midst of happiness. He died with his high ideals unlowered. He died with all the noble illusions of a high-minded youth undisturbed and undispelled. He died without having lost ambition, with his eyes fixed on the high mountains of life, where, beyond any question, had he lived, he would have climbed.

But, dear young friends of my boy, he had already climbed the high and rough ways which lead up the steep mountain of character. He stood there firmly at the top. Mistake not. It was no easy victory. Material achievement may be both; but no moral victory is ever easy or ever accidental.

But yesterday strong and joyous in the full might and swing of buoyant youth, surrounded by his loving friends, the sun of his happiness high in the sky, Rufus Fearing was mercifully spared the sight of grim Death, whose unseen hand was even then upon his shoulder. But had this happy boy turned and seen him beckoning him away from the dear ones — from his home — from his parents and his sister — from the great battlefield of life, with its fine victories to be won, you know and I know, that without complaint, clear-eyed, unafraid, in simple, unquestioning faith, with hope and trust in his Lord, my dear son would quietly have followed into the darkness of the shadow.

. . . . . .

After the death of Rufus Fearing Dawes, what follows was found written in the back of his little memorandum book under the dates given. To his definition of a gentleman, written in his eighteenth year, he conformed in his own life. His thoughts on death were evidently prompted by his severe illness from typhoid fever in 1909. (C. G. D.)

1909

A gentleman is primarily a Christian. He respects the rights of, and his obligations to, his fellows. He understands his own relation to society, and does not overstep the bounds set by himself. He is not bound by the laws of society except in that they agree with the code picked out by himself. He is gentle, kind, courteous; returns good for evil; will go out of his way for the most besot of individuals; never mentions his benefits unless forced to, and then quietly. The gentleman is the attempt of this time to accommodate Christ's life to modern circumstances.

1909

Death is not an "enemy." It is the door by which God allows us to enter His sanctuary. It is not to be feared. When God wishes that we enter that door, it is not necessary for us to push it open. This is contrary to his command. We cannot prevent our departure from this world. It is ordained from on high. All that we can do is to be prepared to go through that door at all times. If my God calls me, I pray Him to take me at His pleasure, and in such a way as to improve somebody else's passage towards His kingdom.

1909

One of the hardest things I have had to contend with was selfishness. This led to self-appraisement. In North

Dakota, by having this paraded before me, I see the folly of it, and from now on I intend to improve constantly. Also the foundations of society are laid on truth. If a community is made up of liars the credulous man is lost until he, too, follow in their steps. The alternative of safety is keeping self-respect until the respect of the others is gained.

1910

Happiness and sorrow are like two straws on a calm surface of water. They attract each other. Memories of dear little Martha Palmer are tinged with sadness only because she is gone. Her kindly, loving, open smile is always a symbol of happiness. Her death was a glimpse of Heaven's happiness shown on earth. Love to her was life. Life was all a joyful expression of tender girlhood. She knew no sorrow save that of others. Loved of all, and loving all, she left us. Sorrow is present. No! sorrow is banished for a sweet sorrowful happiness such as was taught by Martha Palmer.

1910

What is our real purpose in Life? To serve God with all our hearts. Yes, but what is His service? Self-sacrifice, aid to the needy and love. Love is the enveloping sanctuary which binds God to our souls and our souls to our human bodies. It is intangible yet omnipotent. Love reduces all beings to a common relationship which is bound with many ties. No sun but rises on love; no moon but sets on love. God is love and love surrounds us all.

1910

A memory is a sweet bit of tenderness unalloyed by hopes or fear. It is not a tangible thing. It is a gossamer tangle of incidents, faces, personalities, places; a shadow

lengthening into the darkness of forgetfulness; a gateway which opens the field of bygone days. Summer and sun and moonlight permeate these days. The dead are smiling happily into our faces — those whom we remember cherishing in our hearts. Memories are the sparkling headwaters of the stream of life — the froth and foam which floats away leaving the dark rushing tide beneath.

1910

The hardest thing about death, and it is the only hard thing, is that those left behind have to suffer. If I die, please remember, people, that I have striven for the best things in life as I knew them. God will give me credit for that, I hope, and grant that He may deal gently with me for offenses. However that may be, I am not afraid of death.

1911

Everybody is my equal. I have neither superior nor inferior. This is not socialistic, but social, as regards my present status of birth without anything acquired by myself. My ideals are my own. Whether father and I have kept too much aloof will appear later. He has his ideas on the subject and it is enough. But however that may be, I have had to make my own code of ethics as regards society, and hence we start as equal. Whether we end on the same status remains to be seen.

1912

Dreams are phantom ships, wraithlike, helmless, swift, which glide erratically over the sea of sleep.

ADDRESS ON THE ARMY OF THE POTOMAC

By GENERAL RUFUS R. DAWES

The following address was delivered at Cincinnati, Ohio, on the evening of April 7, 1881, at the annual meeting of the Society of the Army of the Tennessee.

During the delivery of this speech and at its conclusion there were most remarkable demonstrations of appreciation on the part of the audience. General Dawes's speeches were always delivered without notes, and this one was stenographically reported and is here given as printed in Volume XIV of the "Proceedings of the Society of the Army of the Tennessee."

The speaker was introduced by General W. T. Sherman, and responded to the toast, "The Army of the Potomac: Patient of toils; serene amidst alarms; inflexible in faith; invincible in arms."

Gentlemen of the Army of the Tennessee: —

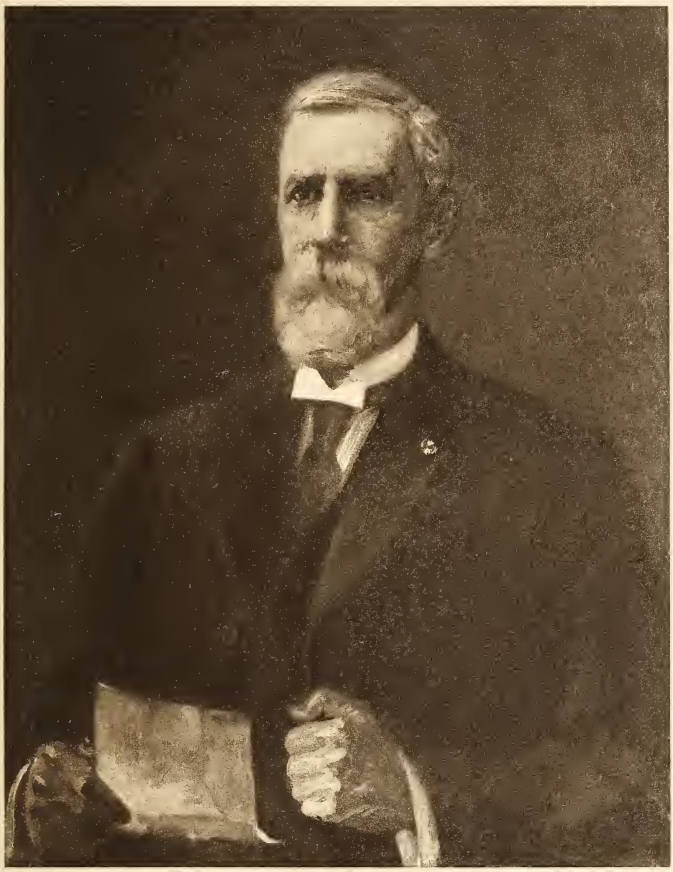
You soldiers of the West have your hard-earned victories. On a hundred fields you scarcely knew defeat. Perhaps, more strictly speaking, on three hundred and sixty-five; for it has been said that you have a battle anniversary for every day in the year. You have the forward sweep of your banners across the land, from the Mississippi to the ocean. You have given from your ranks leaders whose immortal deeds will forever mark historic epochs of the war. These are your distinctive honors. They were fairly won, they are well deserved, and, as I see in the badges all around me, they are, as they should be, proudly worn.

RUFUS R. DAWES (1838–1899)

Brevet Brigadier General, U.S.V., Iron Brigade

Member of Congress

Battle Record — Rappahannock, Gainesville, Bull Run (2nd), South Mountain, Antietam. Fredericksburg, Fitz-Hugh Crossing, Chancellorsville, Gettysburg, Mine Run, Wilderness, Spottsylvania Court House, Bloody Angle, North Anna, Totopotomoy, Bethesda Church, Cold Harbor, Petersburg Mine Explosion.



R. R. Dawley

In rising before you as a representative of that body of soldiers called in history the Grand Army of the Potomac [applause], to stretch my hand across the historic chasm to the representatives of that grand army of the West, the Army of the Tennessee [applause], I should do grave injustice to the survivors of that army of the East, if I failed to express our profound admiration for the grand achievements of the famous army of the West. [Applause.] But, fellow-soldiers, we representatives of the Army of the Potomac have a pardonable pride in the distinctive honors of our army. [Applause.] Our honors do not trench upon yours. As far as the east is from the west, so far was our history in its beginning, in its course and in its conditions, removed from yours. More men fell upon the field of battle action of the Army of the Potomac than from the ranks of any other army of the nation. [Applause and voices, "That's so, that's so."] Nevertheless, bloody repulse rather than glorious victory was the rule in our battle history. But defeat left no demoralization, no discouragement; and sublime fortitude and unflinching endurance glorified every field that was lost. [Applause.] It was this battle quality, broken by no disaster, discouraged by no defeat, that rose to the crisis of the war, and even-handed upon open field of battle wrested victory from the strongest and best-led army ever put into the field by our enemy, and that victory saved your nation. [Applause.] It was this unparalleled tenacity that applied the death-hug to the rebellion, commencing at the Wilderness and squeezing the life out at Appomattox. Marching through a sea of blood and across a wilderness of defeat, it was still the Army of the Potomac that brought the nation in sight of the promised land at Gettysburg [applause] and carried it over Jordan at Appomattox. [Renewed applause.]

It is but a glance that can be given at its history to-night.

Strange conditions commenced your war. The distinguished orator of last night very ably presented them. The soldier of the Southern army marched to the first Bull Run fight with the utmost confidence of victory, because he believed one Southern man could whip five Yankees. The Northern soldier marched to that absurd field with the same confidence in victory, because he believed Secretary Seward's proclamation that ninety days would end the war, and the only thing that he was afraid of was that somebody would get there and crush the unholy rebellion before he had a chance. [Applause.] These conditions brought to that battlefield zeal without order, enthusiasm without discipline, bravery without the touch of the elbow, and they crumbled to dust in the heat of action, and both armies had disintegrated before the battle had commenced. [Applause.] But the defeat was ours, and an appalling calamity was inflicted upon our cause. The stinging disgrace upon our pride brought overwhelming conviction that instruction, discipline, and drill were essential conditions to effective action of an army, and, in a word, they are and ever will be.

But the Army of the Potomac was the victim of an exaggerated policy in that direction [applause] — a season of masterly inactivity when all was quiet on the Potomac fell upon us [applause and laughter] — a strategic condition which Horace Greeley called "rooted inaction," and it was amenable to the criticism of your distinguished President to-day, because under that system it was high treason to steal a chicken. [Applause and laughter.] So, until the spring of 1862, after you men of the glorious Army of the Tennessee had marched down and placed your victorious banners upon Donelson and electrified the nation with the conviction that there was some virtue in God-like action, we were still sticking in the mud; and when you had

marched forward to that field commemorated to-night, the flaming field of Shiloh, and fought upon it, we had only got to creeping in the ditches at Yorktown.

Nevertheless, the battle quality of the army developed beyond doubt in the camps of instruction. It was sweetness long drawn out. It showed itself in the heroism of the Seven Days' struggle, and flashed to brilliancy at Malvern Hill. [Applause.]

This ends the first epoch of the history of the Army of the Potomac. Now comes what we called a "change of base" in the old days. The failure of the Peninsular campaign made it necessary to change our base to cover a beleaguered Capital, and the corps were scattered, and some of them, under the heroic leadership of a Kearny, a Reynolds, a Reno, and a Hooker [applause], reached the field of battle of another commander, and for that leader and their country fought like heroes. Another leader of a corps reached the field also, and gallantly halted and heroically engaged in the bloodless reconnoissance of a cloud of dust, and if we may believe some of the official records of the Government, he is likely to be handed down in history as the hero of that day who saved the army by not fighting, and as the most prescient general on the field. Another corps general, marching to the sound of cannon, every report of which was an appeal from the battle front to comrades to come forward, rushed to the rescue six miles a day [laughter]; and the commander of our grand army sent words of cheer to the commander at the battle front that he would reinforce him with every wagon he had if he would send him cavalry for an escort. [Laughter and applause.] But the army raised up the fallen banner and marched forward to repel an invasion made possible by the failure to join these two columns, for which the stern judgment of history will hold somebody responsible; and in the victorious sweep of our

lines over South Mountain, and the gallant but desperate struggle upon the field of Antietam, there was victory for the army, vindication for our men, and honor for our first commander.

I will hurry up, now. [Cries of "No, no; go on, go on."] We changed commanders, and the black cloud of defeat at Fredericksburg rolled over the army, but it was a cloud illumined by the heroic struggles of our men against fate. No finer example upon the history of war is recorded of men giving life for honor, where there was no hope of victory, than is afforded by the heroism of men against the stone wall at Fredericksburg. But that defeat is relieved by the skillful withdrawal of a hundred thousand men across a deep river in the face of a successful army, and it is glorified by the noble courage of Burnside, who could say, "For the failure of this attack, I am responsible, not my army."

And we changed commanders again. [Laughter.] After a winter of splendid preparation, Joe Hooker took the head of [loud cheers] the finest army on the planet, made so by his reorganization and inspiration, and crossed the Rappahannock River. There was a prestige of victory in the name of Hooker. He was an Apollo at the battle front, and along our lines in the heat of action, like the white plume of Navarre, his gallant form had ever been seen.

> "Hooker 's across, Hooker 's across,
> River of death, you shall make up our loss;
> Up from your borders we summon our dead —
> From valley and hill-top where they struggled and bled —
> To joy in the vengeance that traitors shall feel
> In the roar of our guns and the rush of our steel, —
> Hooker 's across!"

Gallant Joe Hooker! His defeat was as crushing as unexpected.

But the last shall be first; no question, the last com-

mander of the Army of the Potomac will stand first upon its scroll of historic names. He came not exactly like a thief in the night, but just as suddenly and unexpectedly. He said the assignment was totally unexpected and unsolicited by him. I can say that it was totally unexpected and unsolicited by the army, but almost like Lincoln, Meade proved to be the man for the crisis, and not only does the glory of Gettysburg crown his career, but tried in the crucible of the campaigns, the battles of his army from Gettysburg to Appomattox, he will stand before the world as a successful commander, great in his achievements as he was modest in his personal pretensions. [Applause.]

Now I am done with the history of the Army of the Potomac, and, indeed, is there more distinctive history after Gettysburg? Do I not see before me flashing in these badges the star that shone above the clouds at Lookout? [Applause.] It shines here, a star of the West, but is it not a star of the East, also? [Loud applause.] Under the leadership of Hooker and of Howard, those men, veterans of the old Army of the Potomac, went West to help you. [Applause.] Our comrades on the field of blood will claim an interest in their Western glory.

But you men of the West sent us help, too. You repaid the debt in kind and with high interest, for there came to us from you the man who had reached the command of all the armies of the nation [applause] and upon whom there rested all hopes of the nation. To our field of action he transferred the titanic death-grapple of the rebellion. Under his leadership we fought it out on that line all summer. [Cheers and loud applause.] The tenacity, heroism, and devotion of the Army of the Potomac, marching through a sea of blood, crowned that leadership with Appomattox and the nation with peace. And you sent that right arm of power of that great leader, Phil Sheridan, and

Fisher's Hill, Five Forks, and marvelous pursuit of General Lee were among the laurels in his chaplet; and you did more. Almost had the two columns and the grand armies of the East and of the West united, when victory and peace crowned the common effort. Was not this the strength of the East and the strength of the West striving together, triumphing together in a common cause for a common nationality — for the United States? [Loud applause.]

United in the glory of a restored nation, the two armies marched together in final review, they dispersed and army lines were forever broken. They remain only upon the records of history and graven upon the hearts of the men who followed their several banners. But soldiers of all armies remain a common brotherhood, cemented by a common devotion to a nation restored by their united achievements. For that nationality may they ever stand; to that may this occasion inspire them; and may their example so inspire their children and their children's children. [Long-continued applause and cheers.]

. . . . . .

August, 1899.

In writing these few lines of tribute to the dear father who has passed from us, I am overwhelmed with a flood of recollections of his love and tenderness, of his self-sacrifice and generosity in all his family and social relations. With his family, such recollections will always be predominant, and their recital at this time, when their wounded hearts still ache at the recent bereavement, would only bring unnecessary pain. It is not so much of the loving father, whose hearthstone was his happiest resting-place, and whose constant thought was of the comfort and success and education of his dear ones, that I wish now to speak, but of that strong and noble character of his which looked every duty straight in the face and which subjected his every action, public or private, to the dictates of a clear and clean conscience. He was so strong and he was so sincere. He never evaded an issue; and never apologized for his decisions. His constant and consistent teaching to his children was, that above all things of the world — above wealth, above fame, above pleasure — must be placed character. By example and by precept he endeavored to encourage them to meet disagreeable issues squarely, and under all circumstances to tell the truth. And the tenderness which characterized his every action in his domestic relations demonstrated his genuineness and sincerity of purpose when he imposed high standards of conduct.

Among all those I have known in life, I have known no one who would make a greater sacrifice for the sake of a moral principle, or who, in the time of temptation or perplexity, would more courageously tread a painful path of duty.

Taken all in all, in spite of the rest he found within the peaceful haven of his home, his life was storm-tossed.

He had few pleasures as a child, and the awful battle experience of the "Iron Brigade" left him a young man prematurely old. Business adversity did not spare him in his earlier career; and the rewards of his civil and military life, so splendidly devoted to his country, were commensurate neither with his abilities nor his ambitions. Yet who of us ever heard this intensely earnest man utter one word of complaint or disappointment? And when, at what should have been the climax of his life, — when in the course of political and commercial events his turn for more marked civil achievement seemed at hand, — when he was struck down in his strength and confronted by hopeless invalidism, his words and every action were those of calm and cheerful resignation.

That day with its darkness and pealing thunder when we gathered for the last time around his body, covered with the flag for which he had fought so well, — that day so heavy in our memories, — was in itself typical of his life, for as we left him in the evening, the clouds were lifted and the twilight was clear and peaceful and quiet like his strong and steadfast character, always thus amid the tumults of life. The memory of that character is our most precious heritage, and will remain with us always until the Heavenly Father calls us to follow him.

WHY THE SMALL INVESTOR LOSES

(*Saturday Evening Post, April 20, 1907*)

It is little wonder, with the present growth of values in the country and the rapid increase in wealth, that the man with the small savings account feels like using it to secure for himself a greater participation in prosperity than that afforded by three per cent interest. That there is now widely prevalent among our people of moderate means a mania for the investment of small sums in hazardous and fraudulent enterprises is unquestioned. The purpose of this article is to warn prospective small investors against the "get-rich-quick" plans with which they are beset.

I believe that in the vast majority of cases moderate sums of money cannot be invested safely so as to bring in more than a reasonable interest return and should not be invested in response to specious newspaper advertisements. The small investor generally overlooks the advantages which the capitalist has as compared with himself.

In the first place, the capitalist, in making an investment, is generally in the position of being desirous of buying from others. The small investor is in a position where others are desirous of selling to him. The capitalist buys where he can buy cheap, whether the seller is making a profit or not.

The small investor, in answering a published invitation to buy, is always paying a profit to the seller. One should remember, when he is reading a newspaper advertisement of stocks, that he is being asked by a stranger to buy something at the stranger's price.

There is no reason why the stranger should offer him an

exceptional bargain. Exceptional bargains in these days of prosperity do not, as a rule, go begging. The capitalist, if he buys at a profit to others, generally knows what that profit is and measures it in its relation to the profit which he hopes to realize on the purchase. The large investor generally knows what the profit of the seller is. Where the seller fixes his own profit, it is almost always larger, other things being equal, than the amount of profit which results from negotiation. In the majority of proffers of mining stock through newspapers, the man who buys is paying a profit fixed by the seller for his own benefit. Large capital makes a preliminary investigation at its own expense. The small investor either acts upon no investigation, or upon an investigation paid for by the seller. Large capital negotiates for a price with the true value in mind. The small investor generally buys without knowledge of the true value.

What chance has the small investor? You know nothing from the advertisement as to whether the promoters are men of past business success. Many men who are known business failures in their own communities are often long-distance millionaires. Often they are broken plungers whose brief success was widely chronicled, but whose gradual business relapse has naturally not been heralded.

Do not put too much faith in what names seem to mean. Find out, by inquiry from some one who knows, just what they do mean. If you have no way of finding out the character and past business record of the men, do not invest.

A banker in one of our great city banks once asked a man to invest some of his personal funds in his own business. The latter had a business which, though very successful, was not one of great magnitude. He had never had any business relations with the banker or his bank. Naturally surprised, the business man asked the banker why he

selected him and his business, in view of his close relations to the great business leaders of the city. The banker replied: "Because you are successful, and it is your business. I am almost daily asked by business men to join them in outside ventures, but they won't take my money in their own business. When I join a coterie of men in an outside investment, as an almost invariable rule we all lose; and yet every one of us may be a success in our own business. I have had so many experiences of this sort that if even Marshall Field should have asked me to join him in a manufacturing business or a mining venture, I should have declined. But if he had said: 'Put some of your money into my business,' I would have given him all I had. Now men, when they are far along in business, do not want, as a rule, to take outside money in such form as to largely share the results of their work with others. Naturally, if they need money, they borrow it and pay interest on it without sharing profits beyond that extent."

There is a deal of philosophy in this banker's statement. A coterie of business men who "take a flyer," as they call it, can generally afford to lose, and generally do.

Out of all this let us deduce a rule: Try to invest your money with successful business men in the business in which they have succeeded.

In reading a newspaper advertisement of stocks, do so always with a skeptical spirit, just as you would regard a strange individual who would call at your house claiming to be able to sell something at less than its real value. If you see something in the advertisement which tempts you to invest, you will, unless you are a fool, investigate the advertised proposition as you would the proposition made by a stranger. These are some of the proper questions upon which your mind should be made clear: "Who are you, who offer the stock?" "As you ask me to regard your repre-

sentations as trustworthy, refer me to those of whom I know, who will vouch for your character and trustworthiness." "As you are offering me stock in a company, please tell me in percentages how the stock is allotted." "What per cent of the total stock has gone to the people who formerly owned the property bought by the corporation?" "What per cent of the stock represents good-will?" "What per cent of the stock is sold for cash like that you propose to sell me?" "To whom does the cash go — to the company's treasury, or to buy stock already issued for good-will to others?" "What is the relation of the cash cost or selling value of the property of the company to the amount of its stock issues?" "Has it ample working capital?" "What is its indebtedness?" "Are its titles or patents in dispute?" "What are the salaries of its officers?"

Now these questions would be only some of the preliminary questions which the experienced investor would ask before taking up the equally important ones relative to the nature, condition, and prospects of the business itself. How much of this kind of information have you, who, after reading the flamboyant advertisement in the paper, fill in for a few dollars the coupon application for mining or plantation stock printed in the margin of the advertisement? Poor fool, — the man who follows off a buncosteerer is more excusable than you. He has at least had the opportunity of passing a hasty judgment upon the personal appearance of the scoundrel who is after his money. You are simply biting on a hook with the bait half off, without even seeing whether the fisherman looks benevolent. How chary is the fool of displaying his folly?

These are the days when bankers listen to the confidences of the unfortunates who have been buying stocks on "straight tips" and who bring in their remaining sound

collaterals to borrow enough to pay up their losses to the brokers. How quiet they are — these same men who were telling a few months ago how they bought this or that stock upon which their judgment had been vindicated by this or that profit. We hear of the successes; but of the failures, which outnumber them, we seldom hear except when stern necessity reveals them. But our sympathies are not so much excited by this class of fools.

I know a poor scrubwoman who invested five dollars in one share of doubtful mining stock in answer to a newspaper advertisement. The secretary who opened the mail in which the letter was received, if he was honest, must have felt like reaching for his employer's sneaking face with a strong right arm and a doubled fist.

Bloodsuckers, scoundrels — these names sound too mild for such men. Before the eyes of an honest and experienced business man, they would cringe and whine like an egg-sucking dog caught in the act.

And what is the result? Led like sheep to the slaughter, a long procession of the misguided poor are parting with the savings which have been made possible by the most magnificent season of prosperity the nation has ever known. Many a poor wretch, drawing his savings-bank account now, in the hope of getting rich quick, will, in the coming years of industrial depression, wander the streets of our cities without work and without bread. God give us common sense.

This is a hard world in business. It always has been, and always will be. There are many good and generous men in it. There are many who will lend a helping hand to you in your adversity, but in time of need you will not find them among the men who tried to get you to embark in speculation with your little surplus, and to sell you something which would help you to "easy money."

Be self-reliant. Make your own investigation in investments. When you cannot, put your money in a good savings bank. Distrust the financial demagogue. Keep your hand on your pocketbook as you travel through life — first, to always give in proportion to your means to those who are poorer; second, to hold from those who would take through force or fraud what you need for yourself and yours. You will then have your hand where most other fellows have only their eyes. In this alone you will have the advantage of them.

TRUSTS AND TRADE COMBINATIONS

(Address delivered at the Annual Meeting of the Merchants' Club of Boston, October 17, 1899)

THE rapidly changing form of the commerce and manufacturing of the country is bringing new questions before the people for discussion and action. The past year has witnessed an acceleration in the general movement towards the concentration of business enterprise in the United States, which has aroused public attention and created a just demand for the more intelligent legislative treatment of existing industrial conditions.

A general feeling of public uneasiness and apprehension has been caused by the recent combination into single corporations of a large number of heretofore independent and competing concerns for the purpose of controlling entirely their respective lines of trade and manufacture. Some of the stronger of these corporations have been organized without recourse to an issue of bonded indebtedness, and in consequence a period of small earnings hereafter will not of necessity involve them in the demoralizing effects of mortgage foreclosure. The prospect that these stronger corporations will fall to pieces of their own weight, as have some heavily capitalized corporations heretofore, is not likely. When that measure of competition exists which secures to the consumer the benefit of the savings incident to a limited combination of productive effort and capital, we willingly recognize the advantage of the cheapened cost of production and distribution resulting to the community from such combination.

But in this country we are now face to face with this new condition — that combination of effort and capital, which,

under competition, has up to this time been steadily reducing the cost of certain articles to the consumer, has now reached a point where, by the combination of all the remaining competitors, the further reduction of cost of these articles, if not the question of an actual increase in the cost, is a matter dependent upon the will or caprice of those in charge of the combinations controlling the business in these articles.

Such power, owing to various reasons, may not now be in the hands of all such corporations. If, however, it is in the hands of even a few, it is because of industrial tendencies which, under the law of evolution, may bring similar power to an increasing number, and the possible results of this condition properly challenge public attention.

The organization of business corporations is, of course, for the purpose of profit, and, other things being equal, we cannot expect a company which can exact a higher price to sell at a lower price. It is not fair to assume, therefore, from the fact that falling prices in certain lines of business have been characteristic of an industrial system under which competing corporations have been growing larger, stronger, and fewer in number, that falling prices will continue when the remaining corporations have combined and destroyed competition.

From a public standpoint we are justified in construing the large capitalization of these corporations, equaling on the average several times the cost of duplication of the constituent properties, as conclusive evidence of their purpose to secure, as far as possible, for their stockholders the saving in the cost of production and distribution which combination creates.

The principal objects, which would naturally be sought by those endeavoring to entirely control for purposes of profit a system of manufacture in the United States, would

be to buy cheaper through the elimination of competing buyers of raw material and to sell dearer through the elimination of competing sellers of the finished product. In addition, they would seek a profit from the savings resulting from simplification of the methods of operating the machinery of production and distribution. It is in the former purposes and not in the latter that there exists alike the necessity and justification for governmental interference.

There are many who still think that the remedy for any extortion or abuse which such corporations may inflict lies in a competition which will immediately spring up when such abuses exist; but the ordinary observer of present conditions realizes the growing embarrassments surrounding the inception of competing efforts, and while he admits there are many of these present corporations whose power will be regulated, if not by the actual existence, then by the practicability of competition, he feels that with an increasing number of such corporations this is not the fact.

In looking for the causes of present industrial conditions, the fair and candid man finds them beyond political parties and beyond the legislation supported by these parties. The growth of these commercial enterprises may have been retarded by some legislation and accelerated by other legislation, but primarily it has had its foundation in natural causes, and has proceeded in accordance with the natural laws of progress under a competitive system.

It is human nature to seek to acquire, and it is human nature to combine to acquire. It is human nature and not any political party which is responsible primarily for the existence of the trust; yet I cannot agree with those who maintain that this is not a political question. That the so-called trusts are the natural outgrowth of the practically unrestricted and unregulated law of commercial competition, and not created by reason of the former attitude of

any political party, I maintain; but I maintain also that the question of the proper legislative treatment of these great combinations and corporations, formed for the purpose of monopolistic control of the production and distribution of some of the necessaries and comforts of life, is one of the greatest and most practical which has ever confronted the political parties of the nation. I do not think that, where there is a practically unregulated power on the part of a trust to control the prices of certain commodities, there is any considerable portion of either political party which believes that there should be no legislation. The division which will manifest itself among the people of the country will not be between the people who believe that something should be done and the people who believe that nothing should be done, but between the people who believe in seeking one remedy as against the people who believe in seeking another.

Rather than have in the hands of any corporation the power to absolutely fix the price of a necessary of life at an arbitrary figure, the people of the United States will eventually and rightfully do one of two things: they will enact legislation for the protection of the people from extortion, by a governmental regulation more or less extended as public necessity may require, or they will enact legislation for the enforced creation of competition by the disintegration of trusts.

With nothing less than one of these two things will or should the people of this country be satisfied.

The seriousness of the problem cannot be overstated, and our hopes of its successful solution lie in the candid and honest consideration of the great people. At present it is as much the fear of what may occur as dissatisfaction with the results of what has occurred which is the just basis of the public desire for legislation.

The hesitation which some honest men feel in advocating legislation for the dissolution of trusts, as distinguished from their regulation, arises from the belief that the trust is but an unpleasant step towards a better condition of society, and that the solution lies in some form of regulation by Government which will preserve for the consumer a reasonable portion of any additional saving in cost which continued coöperation may create.

The claim that there does not exist an inherent right in Government to control these combinations is one which cannot be admitted. The right of Government to interfere with and regulate monopolies is well recognized in law and practice. The laws forbidding combinations in restraint of trade, the laws regulating rates of corporations acting under granted franchises, and other laws of similar character all have their foundation in public necessity; and in the public necessity for protection from abuse, present or prospective, arising out of the existence of a monopoly in any line of trade, lies the legal and equitable foundation of the right of public interference.

This Government is based upon the rights of the individual. The great strength and growth of the American people have largely resulted from the recognition of individual rights; and it is indicative of the rapid change in commercial conditions that but a short time ago many of those, who now most earnestly advocate the passage of laws restricting and controlling combinations, feared that the passage of laws designed to curb them might result in undue interference with rights of the individual. Our courts have carefully considered the relation of such laws to those rights of the individual which we hold so sacred, and in this connection I can do no better than to quote the words of Judge Finch, of the New York Court of Appeals, in the case involving the Sugar Trust. He says: —

"It is not a sufficient answer to say that similar results may be lawfully accomplished; that an individual having the necessary wealth might have bought all these refineries, manned them with his own chosen agents, and managed them as a group at his sovereign will; for it is one thing for a State to respect the rights of ownership and protect them out of regard to the business freedom of the citizen, and quite another thing to add to that possibility a further extension of those consequences by creating artificial persons to aid in producing such aggregations. The individuals are few who hold in possession such enormous wealth, and fewer still who peril it all in a manufacturing enterprise; but if corporations can combine and mass their forces in a solid trust or partnership with little added risk to the capital already embarked, without limit to the magnitude of the aggregation, a tempting and easy road is opened to enormous combinations, vastly exceeding in number and in strength and in their power over industry any possibilities of individual ownership; and the State, by the creation of the artificial persons constituting the elements of the combination and failing to limit and restrain their power, becomes of itself the responsible creator, the voluntary cause of an aggregation of capital which it simply endures in the individual as the product of his free agency. What it may bear is one thing; what it should cause and create is quite another."

In considering the question of remedies and the means through which they should be sought, the difficulty of securing uniformity of State legislative treatment emphasizes the necessity of additional Federal laws upon the subject. There seems at present an inadequacy of Federal law, and the Federal legislative powers should be invoked. In Congress, rather than in State legislatures, lies the hope of effective legislation which shall relate to the enforced

regulation or disintegration of such existing combinations as may already practically control certain lines of business. Let us trust that Congress will now take up this great question.

And here it may be said that in connection with the consideration of the remedies for abuses of trusts by Congress, laws should be passed protecting existing competition from unjust and unfair discriminations which result from infractions of the Interstate Commerce Law.

The Interstate Commerce Commission in its report says: "There is probably no one thing to-day which does so much to force out the small operator, and to build up those trusts and monopolies against which law and public opinion alike beat in vain, as discrimination in freight rates."

The importance of the reform in law which shall give the Interstate Commerce Commission power to prevent those discriminating rates which do such injury to small shippers is increased by its essential connection with the questions involved in the attitude of Government towards the so-called trusts and the problem of the proper method of protecting the public from the evils of trusts which Congress must face.

In this new field of legislative effort it is unwise to venture rash predictions or offer ill-considered and impracticable remedies. The important thing now is to start, and to start right, towards the solution of these questions.

As the proper modification of the Interstate Commerce Law will inevitably become one of the precedents for governmental dealings with other monopolistic corporations, it is one of the logical starting-points for congressional and public effort in the solution of present industrial questions. Let this start be made, and may Congress give its earnest and conscientious thought and effort to the more general

and more important problem of which this start will be but an incident.

I believe the American people want these questions settled by conservative men and not placed in the hands of irresponsible pessimists. The growth of American commerce and manufacturing has helped to make this the happiest and best land in the world. In that growth, properly regulated, lie our hopes of national and individual prosperity. Our people believe that these questions, like other great questions which have arisen in this country before, can be settled in a manner which will not prove a barrier in the path of commercial and national progress, and that their protection can be accomplished without backward steps in social development.

But they believe rightly that the taking of positive action against the present and prospective evils of trusts is one of the necessities of the hour, and that the question of the nature of that action is one of the issues now before them and to remain before them until properly settled.

Let this great problem, upon whose proper solution depends largely the continuance of national and individual progress, be settled by the optimist, and not by the pessimist — by the statesman, and not by the demagogue. Where there is right purpose there will be found right remedies, and we may be sure that under that Providence which has guided this people in so many times of crisis and perplexity we will be led onward to the right.

THE SHERMAN ANTI-TRUST LAW

WHY IT HAS FAILED, AND WHY IT SHOULD BE AMENDED

(North American Review, August, 1906)

THE Sherman Anti-Trust Law makes criminal "every contract, combination, etc., in restraint of trade or commerce among the several States or with foreign nations."

In its present form, during the sixteen years that have elapsed since its passage, it has proved a failure. If it is to be useful hereafter, it must be made to define what kind of agreements in restraint of trade are illegal, and to exempt from its provisions those trade agreements which, while they may be in restraint of trade, operate either for the public welfare or at least in a manner not injurious to it. This is the day of the trade agreement. We see all over the country, in different lines of business, district, city, state, and national associations of business men, formed for mutual protection and for the arranging of what might be termed the rules of trade. The business community already knows that there are certain agreements in restraint of trade which keep alive competition, and that are aimed at keeping it alive. They seek to substitute, among business men, the "live-and-let-live" policy for the policy of unrestrained competition. Most of the evils against which we cry are the outgrowth of unrestrained and unregulated competition. There is much complaint at times that a large corporation will sell below cost in a particular locality in order to destroy the local competitor, and thus enable it later to exercise a monopoly. An agreement among competitors, therefore, not to sell below cost may, in some in-

stances, be of public benefit, as preserving a larger area of reasonable competition.

Of course, it may not be thus beneficial, but the point we wish to make is that a trade agreement, whether it relates to prices or otherwise, is not of necessity criminal; that it may have either a good or a bad purpose; that it may simply preserve private rights and privileges of trade not detrimental to the public; and that, therefore, the Sherman Anti-Trust Law should not make criminal, as it now does, all agreements in restraint of trade. A law should no more assume that a trade agreement is criminal than the law assumes any individual guilty before trial.

Public policy, so far from indiscriminately making all such agreements guilty, should encourage any contract in restraint of trade which has for its object the maintenance of high standards in manufactured products, the abolition of deception in sales, the prevention of undue collections of perishable merchandise — like meats and fruits — at points where the demand cannot possibly equal the supply, so that a loss and waste are the results. It should discountenance any contract which has for its purpose the extorting of an unreasonable price.

As the law stands at present, it is subject to the following objections: —

(1) As its principal section makes criminal, without further definition, an agreement in restraint of trade, it leaves to judicial determination the definition of the crime, and it has not yet been defined, but will only be defined as each case arises. The business community is therefore left in doubt as to what may constitute a crime under the law.

(2) It makes no distinction between those agreements in restraint of trade which are beneficial to the public and those which are detrimental. An agreement among competitors, for instance, to sell only pure, as distinguished

from adulterated, goods is presumably as criminal under its provisions as one designed solely to extort unreasonable prices.

(3) Being indefinite in its definition of the crime and introducing into business an element of doubt and uncertainty as to trade agreements, it operates to the disadvantage of the scrupulous business man and in favor of the unscrupulous business man.

(4) The fact that trade agreements beneficial to the public, as well as those which are injurious, may alike be criminal under its provisions, discourages the formation of good trade agreements and encourages the formation of evil ones. The first, because scrupulous men desire to take no risks with the law; the second, because to unscrupulous men the risk of prosecution is less, since to include under any law good and bad acts as equally criminal inevitably discourages its enforcement.

(5) The general prosecution of our leading business men for that which may not be inherently criminal or opposed to public policy, which this law makes possible, would tend to have one of two results — it might lead them either to sell out their business as a whole to men willing to take risks with the law, which would be a public injury, or it might lead them to subdivide their business and sell it out to smaller concerns, thus lessening the economies of production and distribution, which would be a step backward in our commercial evolution and a public injury.

(6) The enforcement of this law, giving, necessarily, through its general terms, such wide latitude and discretion to executive officers in their right to proceed against corporations and individuals, is bound to create the appearance at least of favoritism in its application, and to result in lack of uniformity in the treatment of cases arising under it.

Without any intention of reflecting upon the rightful purpose of the Department of Justice in recent actions under the law, a few statements regarding them may illustrate this last point. In the Northern Securities case, a limited action was taken against the corporation only, and no attempt was made to hold the officers criminally. In the cases against the packers, the effort was made to hold them criminally liable. In this latter case, the Government found itself in the attitude of announcing through one department, after a thorough investigation, that the business was not a monopoly and that its profits were reasonable, and of seeking at the same time, through another department, to put its owners in jail as public malefactors. The Northern Securities case was so presented to the courts that the reinstatement of the Chicago, Burlington & Quincy Railroad, as a competitor of the Northern Pacific and Great Northern Railways, was not involved in the decree. The decision did not affect the $215,000,000 Chicago, Burlington & Quincy Railway joint four-per-cent bonds, guaranteed by the Northern Pacific and Great Northern Railways, and secured by the deposit of the bulk of the capital stock of the Chicago, Burlington & Quincy Railroad Company, which had been purchased by the other two roads. Thus it did not interfere with the device by which the operation was chiefly financed and the voting control of the competing Burlington road assured to the Northern Securities Company. As a consequence, when the Northern Securities Company was dissolved by the decision, the same interests remained in control of the railway situation in the Northwest, having that control represented by two separate stock certificates instead of by the single Northern Securities stock certificates as formerly.

We are not criticizing the Department for not attacking the interests of the thousands of innocent holders of the

Chicago, Burlington & Quincy Railway joint four-per-cent bonds, and not attempting to compel them to submit to a change in their security. But from the beginning there was no hope that the Northern Securities case could have much practical effect, unless the final decision could scatter the stock control of the Chicago, Burlington & Quincy Railroad Company. This, it seems, could not equitably be done. The debenture bondholders had practically furnished the money to pay for the Chicago, Burlington & Quincy Railroad stock deposited as part security for their bonds, and under this plan had in effect also exchanged the voting power of the stock for the additional security afforded by the joint guaranty by the other two roads of the principal and interest of their bonds.

In this case the Department of Justice could not see its way clear to demand the full logical penalty either from the corporation or the individuals. If it had done so, it would probably have wrought more evil than good. As it was, it accomplished practically nothing. The "Saturday Evening Post," on July 15, 1905, in commenting editorially on the "End of the Northern Securities," said: "A year hence, in all human probability, no patron of the Northern Pacific or Great Northern will know, save as a matter of history, that the Government won its great anti-merger suit — any more than thousands of patrons of other combinations are now able to tell that those combinations have been solemnly banned by the law. In any undertaking the most important beginning is to find out what can and what cannot be done."

Certainly, some law, other than the Sherman Anti-Trust Law, is needed to deal with such situations as that presented by the Northern Securities case. And such a law should certainly provide for the determination, first, as to whether or not, as a matter of fact, the consolidation worked,

or would work, harm or benefit to the people of the section of the country affected. Then, if it was decided to be harmful, the remedy should be in the nature of an effort to restore the former conditions of competition. If it was decided not to be injurious, then the Government should, under the law, sanction it. Other instances could be given which with these cited indicate the impracticability of the Government's following any consistent course of procedure under such an indefinite law. How could uniformity of action be expected under a law which includes in its general condemnation that which is inherently innocent as well as that which is inherently guilty?

As a matter of experience, we know in this country that no law is tolerable if enforced, or useful if unenforced, which designates good and bad acts as alike criminal.

The Sherman Anti-Trust Law, in order to get at bad agreements in restraint of trade, makes all such agreements criminal. As some one has said: "It is like putting the whole community in the pest-house because some members of it have the smallpox."

Ill-considered and ill-advised legislation is worse than no legislation at all. Every unenforced and unenforceable law undermines proper respect for law.

In July, 1890, when the culminating years of a period of great prosperity had turned the mind of the public to questions relating rather to the distribution than the creating of wealth, — a period of public disquietude like the present, — the Sherman Anti-Trust Law was passed in response to an excited public demand. Because of its inherent defects, this law became practically a dead letter until recently, when an effort has been made to use it in response to a recurrence of public protest against corporate abuses. It seems to us very unfortunate that now, when the public interest in such questions is fully aroused, we do not have

greater efforts on the part of our leaders to create wise public sentiment in favor of proper legislation regulating general corporations; and that, so far as the trust question is concerned, the chief endeavor to satisfy the public mind is made through selected civil and criminal cases under the defective Sherman Law.

The Sherman Anti-Trust Law should cease to be a fetish to so many public men. The assertion, that "not new laws, but present laws enforced, will cure our corporate abuses," should not pass unchallenged. In times of strong public feeling like the present, public men are prone to take up popular legislation, and generally, but not always, popular legislation is needed legislation. Men seek to be known as advocating rate legislation, for instance, because it is popular. But where a reform must be secured by the correction of over-radicalism in an ineffective existing law, like the Sherman Anti-Trust Law, and the advocacy of the change will bring from the radicals of the country castigation instead of applause, public men act with caution and the *status quo* generally prevails. Let us hope that, before this period of general interest in corporation questions is passed, the question of the amendment of the Sherman Anti-Trust Law will be taken up by Congress, and the law made more practical and enforceable by the clearer definition of what shall constitute illegality in trade agreements, and by the exemption from its provisions of such agreements in restraint of trade as are not injurious to the public.

The remarks of Marshall M. Kirkman, in his recent volume, "The Basis of Railway Rates," apply not only to the current discussion of that problem, but to corporations and corporation laws as well. He says: —

"Exaggeration in discussions affecting corporations, whether on the part of managers or the public, is to be deplored in the interests of a right solution of the myriad

questions of a public nature concerning them. Too much bitterness is shown in the controversy; too many things are being said having the air of private rancor, of personal feeling. Sharp phrases are being coined on both sides without much regard to the facts, all having a tendency to prevent calm consideration and an equitable adjustment of the matter. From whatever point of view the question is considered, it is never merely a question of silencing an opponent or influencing public opinion, but always of having the matter settled fairly, according to the rights of all concerned."

THE DEFECTS OF THE SHERMAN ANTI-TRUST LAW AND A DEFENSE OF THE AMERICAN BUSINESS MAN

(Delivered before the Trust Conference of the National Civic Federation at Chicago, October 23, 1907. Stenographically reported by G. Russel Leonard)

Mr. Chairman, and Gentlemen of the Civic Federation: —

When a nation becomes prosperous, it becomes critical. We have been very prosperous in this nation, and it seems we are about ending a period of greatest prosperity. We may have a prosperous future before us, but the climax of prosperity has perhaps been reached, and I hope a climax of criticism in this country. Personally, I have very little use for the critic. We are living, and have lived for the last two or three years, in an atmosphere of criticism, much of it very useful; much of it, though destructive, very useful. But the kind of criticism we want, and of which we have not had enough as yet, is the criticism that is designed to tear down for the purpose of building up afterwards, and the kind of a critic who is valuable to his community and to his State is the man who criticizes not simply for the purpose of destroying an institution or of destroying a man, except in so far as that destruction is necessary to the accomplishment of a reform. Then he, too, must bear the lash of criticism, for it is the doers and not the drones who attract people's attention and who must take the lashing of these gentlemen who like to tell us so well how things should be done in this country.

This is an age of criticism. We had another such period about seventeen years ago, and at the end of that period of the greatest prosperity which the country had then known

for many years, in a period of protest against undoubted corporate abuses such as that through which we are passing, at a time when there was widespread protest against certain corporation practices, as there is at present, at a time when hostile legislation was being enacted in the different State legislatures, as there is at present, there was passed this hostile, illy conceived, superficial legislation which is called the Sherman Anti-Trust Law. Passed without due consideration, passed in a period of public excitement; radical legislation, it has until recently remained a dead letter upon the statute books of the United States, and not until recently has any attempt been made to use it as a corrective agent of reform in the United States.

The Sherman Anti-Trust Law provides, without further definition, that all agreements in restraint of trade are criminal. It does not define the crime. It includes in its provisions all kinds of trade agreements in restraint of trade, whether publicly beneficial or publicly detrimental.

Now, this is the day of the trade agreement. We have agreements in restraint of trade which are unquestionably of public benefit. An agreement among manufacturers, for instance, to compete upon pure goods only as distinguished from adulterated goods, is unquestionably to the public benefit, and yet under the provisions of the Sherman Anti-Trust Law it is as criminal as any agreement for the purpose of charging extortionate prices. An agreement among manufacturers to prevent the undue accumulation of fruits or meats or other perishable commodities at places where the demand cannot possibly equal the supply and where the accumulation of such commodities would result in a loss of wealth, which is injurious both to the producer and to the community, — such an agreement in restraint of trade is to the public benefit. An agreement not to sell below cost even may be a public benefit as pre-

serving a larger area of reasonable competition, for certainly we have heard a great deal recently about these great corporations which seek to secure a monopolistic control of a commodity in a certain district for the sake of raising prices later after crushing out local competition. We have heard the greatest complaint about that form of competition. So that I say an agreement in restraint of trade for the purpose of preventing selling below cost may be a public benefit. Of course it may not be a public benefit. It may be for the purpose of extorting an unreasonable price, and if such an agreement is for the purpose of extorting an unreasonable price, it should be put under the ban of the law, as it is under the ban of the Sherman Anti-Trust Law at present.

But the point I wish to make is that there are good agreements in the restraint of trade, agreements in restraint of trade publicly beneficial, as well as those which are publicly detrimental, and that the Sherman Anti-Trust Law, including as it does good agreements with bad agreements, is a law which is operating to-day against the proper conduct of business and of commerce in the United States. [Applause.]

In the first place, it is operating against the proper conduct of business because the crime is not defined. The business community to-day is in doubt as to what is criminal under the Sherman Anti-Trust Law, and the crime has not yet been defined, but it is defined only as each case arises under the Sherman Anti-Trust Law through court decisions. The result is that the business community is in doubt as to what constitutes a crime under the Sherman Anti-Trust Law.

Now what is the effect of that on the business community? It militates against the scrupulous man in business, and in favor of the unscrupulous man in business, for the

reason that the scrupulous man desires to take no risks with the law and refrains from action, and the unscrupulous man violates the law with greater impunity; for experience shows that in this country and in any country any law which includes actions inherently innocent with those inherently guilty under its ban is inevitably difficult of enforcement. So the unscrupulous man violates the law with greater impunity and the scrupulous man refrains from action. And as a consequence the Sherman Anti-Trust Law to-day is encouraging the crushing-out of competition, is encouraging the formation of larger corporations all the time, because they can do legally by consolidation what they cannot do legally under the Sherman Anti-Trust Law as separate corporations through a trade agreement. [Applause.]

Another objection to the Sherman Anti-Trust Law — and it is a very serious objection — is that under a law so indefinite in its description of crime, of necessity such latitude and discretion is given to the executive officers of the Department of Justice in their right to proceed against corporations and against individuals that inevitably the appearance, at least, of favoritism is had in the institution and in the bringing of those cases. Public sentiment will not sustain the criminal prosecution of those men whose business seems to be conducted for the public benefit and whose prosecution seems to be against the public benefit, there being no inherent guilt in their methods. As a result of this latitude, which is given of necessity, as I say, to the executive officers of the Government, — their right to proceed against corporations and against individuals, — there has been — and I do not wish in saying this to cast reflection upon the rightfulness of intention of the Department of Justice — but there has been the appearance of favoritism in the prosecutions instituted in that depart-

ment. In the case against the Northern Securities Company suit was brought against the corporation alone. In the case against the packers the suit was brought, not only against the corporation, but against the individuals, and the Government found itself in that latter case in the position of announcing through one department that the business was not a monopoly and was conducted at a reasonable profit, and through another department at the same time of seeking to put the owners of that business into jail as public malefactors. Other instances could be cited.

Another thing, — the fact that attack upon men of prestige and men of supposedly high character and men of position is made possible under this law, and that attacks upon the men who do things attract attention in this country, has resulted so far apparently in an inability on the part of the Department of Justice to refrain from trying their case in the newspapers prior to the institution of the case. [Applause.]

Now, let us take up this Northern Securities case and let me explain just what that case is, in order that we may see the futility of a penal law such as the Sherman Anti-Trust Law when an attempt is made to use it as a corrective of assumed business ills. Now, follow this: The Great Northern Railroad and the Northern Pacific Railroad jointly bought the stock of the Chicago, Burlington & Quincy Railroad Company, with one hundred million dollars of capital stock, and this hundred million dollars of capital stock of the Chicago, Burlington & Quincy Railroad Company was divided equally between the Great Northern Railroad and the Northern Pacific Railroad. Then the Chicago, Burlington & Quincy Railway Company issued $215,000,000, joint four per cent bonds, guaranteed by the other two roads, behind which bond issue was placed as collateral security the stock of the Chicago,

Burlington & Quincy Railroad Company. The voting power of the stock, therefore, of the Chicago, Burlington & Quincy Railroad Company, the road which made the rates, the road which it was desired to wipe out as a competitor of the two other roads, passed to the Great Northern Railroad Company, and to the Northern Pacific Railroad Company, since they owned the stock, half and half, of the Chicago, Burlington & Quincy Railway Company. And then the Northern Securities Company was formed, and these stock certificates of the Great Northern and the Northern Pacific Railroads were put into the hat called the Northern Securities Company and the Northern Securities stock issued in their place.

Now, the Department of Justice in bringing that case made no attempt to have adjudicated the status of the $215,000,000 of joint four's of the Chicago, Burlington & Quincy Railway Company bonds which had been guaranteed by the Great Northern and the Northern Pacific Railroads. Certainly, if any step in that transaction was against public policy, the step by which that independent railroad — the Chicago, Burlington & Quincy Railroad — was wiped out of competitive existence was illegal — certainly, if any step should have been attacked in the Northern Securities case that step which was the financial stepladder over which the whole transaction was lifted, should have been attacked; but it was not attacked, and the court in the Northern Securities case, since the Department of Justice had not attacked that bond issue and the segregation behind it of the Chicago, Burlington & Quincy Railroad stock, simply held that the Northern Pacific stock and the Great Northern stock which was held by the Northern Securities Company should be traded for the stock of the Northern Securities Company, so that every man who had a certificate of stock in the Northern Securities Company

received two certificates of stock in lieu of it, one in the Great Northern Company and the other in the Northern Pacific Company. That involved no change of ownership. The voting power which controlled this great Northwestern system remained in the same men. The Northern Securities Company had done its work. Conditions had been changed permanently, and no attempt was made in this legal effort to bring about the former conditions. Manifestly the Anti-Trust Law proved a failure so far as any improvement or practical change in the condition of the Northwestern railway situation is concerned. The proper remedy should have been sought in an effort to restore the old conditions of competition, not in changing in the hands of the same owners a piece of white paper for a piece of red paper and a piece of blue paper, the certificates of stock in the Great Northern and the Northern Pacific Railroads for one of the Northern Securities Company. And why did they not do it? Because they reasoned that to attack the security of the innocent holders of those bonds would result in more harm than it would good, and they were probably right. What hope was there at any time of securing any practical change in the railway situation in the Northwest through the Northern Securities case when they left undisturbed the segregation of that stock behind those bonds which wiped the Chicago, Burlington & Quincy Railroad out of existence as a competitor of the other two roads? And yet how many reputations have been built up on the Northern Securities decision! The proper law would provide that in such a case as the Northern Securities case it should be first determined whether or not that consolidation was for the public interest or against the public interest. If it should be held by some tribunal established by our Government that this agreement in restraint of trade was beneficial to the Northwest, then that

agreement should be sanctioned and upheld; and if it was found to be publicly detrimental, then that agreement should be set aside, and the law should provide the method for the restoration of former conditions. But it must have been known, at the time that the Northern Securities case was brought up, that it could result in nothing practical, when no attempt was made to bring into court that which was the very business corner-stone of the whole transaction. Give us honesty of purpose; give us those men in charge of such prosecutions as these who will take action when they believe it will result in practical good for this people and to this nation. Every attempt to seek the enforcement of such a law as this which does not succeed tends to undermine respect for all laws. The Sherman Anti-Trust Law has been a dead letter for nearly seventeen years; and it has failed thus far to be a practical benefit, though attempts have been made to use it recently for the correction of existing business evils.

We need the amendment of this law. We need, first, a clear definition of what is criminal under the Sherman Anti-Trust Law, so that any one who is contemplating an agreement in restraint of trade, which may be beneficial or which may not be publicly detrimental, shall know what he can do without running the risk of indictment under the criminal laws of the United States and imprisonment after conviction. One of the prominent lawyers of the city of Chicago told me that he had at one time not long ago four agreements in restraint of trade brought to him by clients, two of which were publicly beneficial, and two of which were not publicly detrimental, and he was unable to advise his clients that they could enter into one of them without running the risk of indictment.

I am going to say here something to-night about the men who do things in the United States. [Applause.] I

am tired of the interminable criticism of men who are doing things in the United States. [Applause.] Take James J. Hill, who was responsible largely for the Northern Securities Company, starting out as a poor boy on the Upper Mississippi, checking freight on a steamboat landing and sharing his room with Philip D. Armour in order to save expense — starting from small beginnings, but a great man and a man who had imagination — which is as essential in great undertakings as the commercial instinct itself — looking out to the great Northwest — starting with his small road and extending it and sharing his profits honestly *pro rata* with his stockholders, until, in 1904, he had built a road which carried eleven million tons of freight and over three millions of passengers. He was building up other fortunes while he was making that great fortune of his own. He was creating thousands of pay-rolls while he was making that great fortune. He was creating the opportunity for making a livelihood for thousands of men. He was creating the material for thousands of industries. Where was it, in the course of that career from a poor boy checking freight on that steamboat landing until to-day when he stands at the head of that great road, — tell me where it was that James J. Hill first became a menace to the people of the United States and to the prosperity of this country, and a man properly to be indicted under its criminal laws. And yet James J. Hill is practically an adjudicated criminal under the Northern Securities case. And if the statute of limitations has not run he is liable to indictment and after trial and conviction to imprisonment to-day.

This talk by the muck-raking magazines of to-day is one-sided. Who are the men to-night who are doing the most for their country at this time? In the city of New York to-night some of those very men who for the last

four years have borne the lash are doing a work for their country the value of which it is hard to estimate, however extravagant might be our language. As you and I will sleep in peace and in quiet to-night, devoted men in that great financial heart of our nation will be awake in the early morning hours seeking to hold values, seeking to prevent the destruction of confidence, upon which the whole prosperity of this nation depends. [Applause.] Are they seeking to depress values to-day as our friends the critics would have us believe, in order that they may reap the benefit? No; they are seeking to uphold the credit and reputation upon which prosperity exists. They are seeking to save employment for thousands of your men, Mr. Gompers, by sustaining credit and sustaining confidence. They are seeking to save the opportunity for the profitable continuance of you who are merchandising, of you who are in manufacturing, of you who are in any of the various walks of business life. And I would rather have half a dozen of those men than all the muck-raking magazine critics that ever walked the face of the earth [applause] — those men who point out a crack in the sidewalk and claim that the whole town is going to fall through it. [Applause.] The American business man is honest — the average American business man. He wants the Sherman Anti-Trust Law corrected because he believes in obeying his country's laws, and I repel the assumption of so many in these days that the American business man is a man who must be watched — watched — watched. The American business man stands for that which is right in this country to-day. He asks that this law be amended so that he can pursue his business — that business which is proper and correct — without the fear of molestation or criminal prosecution when he is not a criminal. [Applause.]

Very many of these agreements in restraint of trade are

for the purpose of existing, not of extorting. But for some not very singular reason we do not seem to have at this time that particular kind of courage in statesmanship which leads a man to stand against that which is wrong when it is unpopular to stand against it. It requires no great courage for a public man who exists through his popularity to fight the Standard Oil Company or some of these great trusts. That which is true courage in statesmanship is the standing up for that which is right, but that which is unpopular, and which will bring down upon the man who so stands the castigation instead of the applause of the radical portion of our people. [Applause.] We need more of such leadership to stand for that which is right, and in this country of ours the man who nails himself to a right principle in the long run will be vindicated. But while we have those who are standing for radical railway legislation, — and I do not say that it is not needed, — while we have those who do not hesitate to seize leadership in those reforms which are pleasing to the radical portion of our people, we do not seem to have that leadership which will stand for the reform of a radical, ineffective, existing law like the Sherman Anti-Trust Law when such action on their part will bring down the castigation of the public instead of its applause. What the business man wants to do is what you are endeavoring to do — you who represent the laboring man of the United States [addressing Mr. Gompers] when you are seeking to prevent that kind of competition which crushes out life — when you are seeking to bring about coöperation and better understanding between those who employ and those who are employed. You have singularly good fortune in not being opposed by the politician. [Laughter and applause.] The business man, in attempting to secure fair and honest coöperation, may not meet with the opposition of politicians, but he

meets with very indifferent support. If we are going to make any progress in this vexed question, the Sherman Anti-Trust Law must be amended so as to clearly define what the crime is. Provision must be made by which agreements in restraint of trade can be submitted to some tribunal acting in the interest of the public and representing them, before which such agreements can be tried in their relation to the public interest. Then such agreements, whether in restraint of trade or not, if not publicly detrimental, or if publicly beneficial, must be permitted, and if for the purpose of extorting an unreasonable price or otherwise publicly detrimental, they should be put under the ban of the law, and if consummated, the offenders should be punished. [Applause.]

BUSINESS AND THE SUPREME COURT DECISION

(*Saturday Evening Post*, June 24, 1911)

The Supreme Court of the United States has held that contracts which unnecessarily and unduly restrict competition or unreasonably restrain interstate trade are prohibited by the Sherman Law. The question that immediately confronts the business man is — What constitutes a reasonable contract in restraint of trade that would not come under this prohibition? He cannot be certain of the reasonableness of a contract without a judicial determination of the question in each particular case. The business world, therefore, must still be in doubt with this advantage only as compared with the past: that whereas, heretofore, under the strict reading of the statute, a business man was certainly a criminal if he made a contract in restraint of trade, he is now one only if the courts should say his contract was unreasonable after it was made.

What the business man wants to know is what kinds of contracts in restraint of trade are reasonable and what kinds are unreasonable before he makes them, and in this the decision does not materially help him. If dealers in meat, fruit, butter, and other perishable commodities agree that they will not ship ten carloads a week to a community that can consume only five carloads, since by so doing they save the five extra carloads from being spoiled, which would have resulted in a loss to them, — and in the long run to the community, which always pays the eventual cost of such waste, — they might expect such a contract in restraint of trade to be held as reasonable. Yet

might it not be attacked on the ground that, had the extra five cars not been diverted, the immediate effect of selling an oversupply competitively would have meant lower prices to the community for the time being, and that the agreement, therefore, was one to extort higher prices?

It is easy to understand that the making of such contracts still involves risk to the business community, for the courts might ascribe either a good or a bad intention to such contracts according to the standpoint from which the court viewed their results. A prudent and scrupulous business man is still in a quandary, for he wishes to take no risks of violating the law. In regard to offenses other than those against the Sherman Law our statutes governing business are reasonably specific. The truth is, we are in a transition state in business, and the managers of great industrial corporations are of necessity in a dangerous situation.

Take the case of the United States Steel Corporation, which is said to advocate the policy of stable prices and undoubtedly at times in the past has sold steel at a lower price than was justified by the demand and the general condition of business. It has, until very recently, maintained its prices, I understand, in a time of slack demand; and, in consequence, unquestionably lost considerable business to competitors. Suppose it should change its policy and, though still selling steel at a profit, reduce its price to the community to a point where many of its smaller competitors would have to close shop. Would it then be a bad trust? Suppose it maintains its prices until it commences to lose so much business that self-preservation compels it to go into the market and take the business at a price that, owing to the lesser cost of large production, enables it to outsell its competitors and drive them to the wall, will not such an action immediately place it, as a

corporation, and its managers personally, in jeopardy, by raising the question as to whether its past absorption of plants was not for the purpose of crushing competition and establishing eventual monopoly? The truth is that the Supreme Court decision still leaves the country with its greatest question still unsolved; and my own idea is that the plan of making the Sherman Anti-Trust Law effective as an agent of commercial and industrial reform is a mistaken one.

The test of reasonableness leaves a wide discretion with the Executive Department of the Government in the instituting of suits. The operations of certain large corporations may be assumed to be within reasonable limits and the companies relieved of defending themselves against attack; whereas other corporations, assumed by the Administration to be acting unreasonably in restraint of trade, may be subjected to repeated suits. This would seem to imply an injustice as long as the distinction between reasonable and unreasonable restraint is so uncertain; and the situation continues to be a dangerous one, especially on account of the criminal penalties of the statute. The fixing of crime should be a matter of administrative duty, and not of discretion. The solution of the question, if we depend on this law, must require an indefinite amount of litigation and an indefinite time.

Does not our hope for a satisfactory solution of the problem lie in the direction of the establishment by law of business tribunals, before which business men, desiring to make contracts in restraint of trade, can come and publicly submit proposed contracts? Such contracts could then be considered in relation to the public welfare and, if adjudged reasonable, be authorized, or, if considered unreasonable, be rejected.

With such tribunals, empowered to cancel such con-

tracts upon complaint if after trial they proved harmful to the public contrary to the first opinion of the tribunal, surely we should be better protected as a people and as business men than we are to-day, when, under the decision of our highest court, contracts in restraint of trade may be made at the risk of both the maker and the community. For to-day, if the contract be unreasonable, the community suffers until this contract is judicially checked, and the maker is left in doubt as to whether or not he is a lawbreaker until such adjudication.

THE TRUST PROBLEM

(Chicago Tribune and New York Times, November 7, 1911)

THE trouble with the efforts the Government is making to cope with the trust problem arises from the fact that the underlying assumption of the Sherman Anti-Trust Law, under which its actions are brought, is that the policy of unrestricted competition still subserves the best interests of the public.

The steps the Government has taken have not had the effect of increasing competition, but in most cases of establishing precedents which will interfere with proper methods of business now almost universally followed. It is assumed by many that the present policy of the Department of Justice of attack under the Sherman Anti-Trust Law upon present methods of doing business is a general one.

Whatever may be the inference to be drawn from the remarks of the Attorney-General as to his future procedure, the fact remains that he has barely passed the edge of the field of his possible activity. The alarming feature of the situation is that, with nothing practically demonstrated in the way of relief to the public through his past actions in a comparatively small number of possible cases, the indirect destruction of values and the depressing effect upon business which has resulted point to a great future injury to business when the Department of Justice fairly enters its crusade.

And if there be potency for evil in the policy of the General Government proceeding against corporations doing an interstate business, we may properly be apprehensive when the attorneys-general of the different States and

the prosecuting attorneys of the different counties of the States, following the example of the Government and acting under the existing local and unenforced anti-trust laws, attack local industries operating under trade agreements.

Let no one underestimate the number of trade agreements in existence in the United States. The United States consular reports state that in 1905 there were 385 cartels or agreements in restraint of trade in existence in Germany, where they are encouraged in behalf of the general public and have no political opposition.

I believe it no exaggeration to state that in the United States we have five cartels to every one in Germany. When the agreements among local retailers, district wholesalers, local and district manufacturers, publishers, labor unions, contractors, employers, and employees are considered, existing as they do throughout almost the entire country, some reasonable in their nature and some unreasonable, an idea may be gained of how far the business interests of this country have already adopted the new order of coöperation as against the old one of unrestricted competition.

So settled a thing in the business of the country is this new order that the business man is only beginning to realize that the system has received a peremptory challenge. He is coming to understand that this attack of the Department of Justice is not simply an attack upon the rich or upon great corporations; it is an attack upon industry and the system under which it now operates.

The two most discussed methods of dealing with the trust question are the method proposed by the radicals and the Taft method. The radical recommendation seems to be to amend the Sherman Anti-Trust Law so that the flexibility imparted to it by the recent decision of the United States Supreme Court is destroyed and all agree-

ments in restraint of trade, reasonable or unreasonable, are made illegal.

That such a plan is even suggested indicates the confidence felt by radical politicians in the success of a political crusade against corporations which must draw its strength from the passions and prejudices rather than from the reason of our people.

It hardly seems worth while to discuss at length this proposal. Our people are too intelligent to wish to hark back to the old methods of unrestricted competition. These have gone forever like antiquated methods of transportation and manufacture.

The Taft method seems to be the invoking of the Sherman Anti-Trust Law to dissolve consolidated corporations into their former constituent corporations, under the theory that such separation will tend to restore the former condition of competition between them. The result of the Government's suits thus far brought, in this attempt to fly in the face of the irresistible law of commercial evolution, seems to have been a change in the form of ownership and control and not in the fact of ownership or the substance of control.

Consider the Northern Securities suit, where substantially the same set of owners find themselves in control of the same railroads through their possession of stock certificates in the Great Northern and Northern Pacific Railroads, instead of one certificate of stock in the Northern Securities Company.

Does any one of business sagacity expect that through division of the evidence of ownership the undisturbed ownership itself will cease to exercise its rights and functions?

We may as well expect the tides to turn backward as to expect the scattered constituents of the old Standard Oil

Company, owned and controlled by the same interests, to fight each other.

The policy of the Administration in these suits against consolidated corporations will result only in compelling the scattered constituents, still allied in common interests and ownership, to do their business at a somewhat greater cost, which the public will chiefly pay.

We are all affected by the attitude which the Government is now taking upon this question. No man who labors with his hand can stand by in safety and expect to see the rich suffer and himself escape. He may feel that he does not receive his full share of the product of the enterprise of which he is a part, but he will not be helped by having the enterprise crippled.

It is easier to destroy than to upbuild. An iron bolt thrown by an ignorant or a ruthless hand into a great engine running at full speed may destroy it. One man may destroy a building upon whose energies thousands have toiled. The agents of Government, now so active in throwing missiles into the great machine of national industry, will assuredly make their impression.

But it is of little use to rail against methods of securing progress. The Administration, if doing nothing more, is at least demonstrating the inefficiency and inutility of the Sherman Anti-Trust Law. What we as business men should turn our minds to at present is the proper step to be taken in legislation which will be forward and not backward.

The recent attacks upon business have frightened many into the advocacy of ill-considered measures. Federal license of corporations in the present state of our laws will increase our dangers, for it will only invite additional attacks upon the proper and legitimate business of corporations.

The fact that the Second Bank of the United States was chartered by the Government was only an invitation to the Jackson Administration to destroy it, and when it was destroyed, among its chief enemies were the Government directors of the bank, who had acted as spies.

Federal license may be an incident to the proper solution of the problem, but in itself it is no more a solution of the fundamental principles at stake than is the Sherman Anti-Trust Law. We should, however, have a new law upon our statute books during this transition period, when we are solving the true relationship of the old theory of competition with the new condition of coöperation — while we are seeking to find the proper legislative expression of the compromise between cut-throat competition and unrestricted monopoly which American business is already recognizing in practice.

While we are seeking a proper solution, the law which I propose will allow us to do it with the minimum of business disaster, and it will aid us in finding a way to the final solution by making us, as a people, more acquainted with the nature and purposes of agreements in restraint of trade.

I suggest a law the general terms of which will provide for a tribunal of selected business men of high standing, before which corporations or individuals desiring to form agreements in restraint of trade may voluntarily appear and have such proposed agreement considered in its relation to the public interest.

If such agreement shall be considered by the tribunal either beneficial or not injurious to the public, then its execution shall be authorized, and those forming it shall be in the mean time immune from prosecution under the Sherman Anti-Trust Law.

The tribunal, however, shall have the power, upon its own initiative, to recall the authority granted to carry

out such agreement, if it should prove, after trial, to be injurious to the public in the judgment of the tribunal. If such proposed agreement in the first instance be regarded by the tribunal as injurious to the public, it shall refuse to sanction it, and if it is then entered into, the makers shall be liable to prosecution under the Sherman Anti-Trust Law.

There should be the right of appeal from the decision of the tribunal to the courts in regard to the reasonableness of a contract in restraint of trade — by the proper public officials in the case of the authorization of such a contract, and on the part of the parties applying in case of a refusal to sanction such a contract.

Pending a decision, on appeal to the courts by a public prosecutor where an agreement has been authorized and has not been recalled by the tribunal, the agreement shall be operative and the contracting parties free from prosecution. If the courts shall decide upon such an appeal against the agreement, it shall be canceled, and further operations under it shall be subject to the penalties of the Sherman Anti-Trust Law.

Such a law will have the following advantages: —

First, it does not interfere with any existing rights of the Department of Justice to have adjudicated, under the Sherman Anti-Trust Act, the reasonableness of interstate corporations.

Second, under the present holding of the Supreme Court, agreements in restraint of trade are now made both at the risk of the public and of the business men making them — at the risk of the public, because in the case of an unreasonable contract it remains in force and the public suffers until after long adjudication the court declares it unreasonable; at the risk of the men making it, for they cannot know in advance whether the court will hold such agree-

ment reasonable or unreasonable, and whether in consequence they will be held as criminals or not when the adjudication is completed.

Third, this law would invite men having trade agreements already in effect, which they regard as reasonable, to make them public and to request review of them by the tribunal in order to relieve themselves of the possibility of actions against them personally under the penal code.

Fourth, this publicity will educate the public in the distinction to be made between reasonable and unreasonable agreements in restraint of trade and aid in revealing the true nature and vast importance of the problem which must be solved.

Fifth, it will gradually segregate the men and corporations engaging in fair trade agreements who are willing to subject them to the preliminary test of a public consideration by the tribunal from those unwilling to do this.

Sixth, it does not involve coercion, for submission to the tribunal is voluntary.

Seventh, under this law the proper conduct of business, which is the important thing, rather than the form of its organization, will be emphasized.

To sum up, under the proposed law the question of the public interest, which is of prime importance, will be decided by an impartial public tribunal at the time the contract is sought to be framed. If it is held to be unreasonable it cannot go into effect and the public will not suffer in the mean time.

At the same time the men desiring to make it have the same opportunity of relief from the courts later that they have now. If, however, it is held by the tribunal to be reasonable, the business man can engage in it without fear of prosecution until the court has decided against him, when he must desist, under penalty.

The Department of Justice is now bombarded with requests for their opinion on such questions, because good business men desire to take no risk with the law, and rather than to run the risk of prosecution for something they do not regard as criminal are seeking to have the Department of Justice, an association of lawyers, assume the powers of review upon business methods which this tribunal would assume. This situation, in itself, constitutes an argument for this proposed law.

ADDRESS AT H. M. BYLLESBY BANQUET

(At the Chicago Club, in Chicago, June 29, 1911. Stenographically reported)

Mr. Byllesby, and Gentlemen: —

I DO not know how acceptable or pleasant my remarks may be to the majority of those present, but I have come to learn in the past few years that they are always acceptable to my dear friend Byllesby. He invites me to speak every time an occasion seems to him to warrant it, and unfortunately for me that happens quite frequently. He always tells me to "Say so and so," and accordingly I have spent an hour reading one of his addresses along which he tells me he hopes I will model my remarks. [Laughter and applause.] He has intimated that it will not be amiss if I throw a few flowers at the capitalists. He tells me that he wishes me to dwell especially on the fact that there is at the present time in this country a very widespread feeling, that perhaps only a few of us are aware of, that we are getting rich too quick, and that it is very important to the general welfare of the country, to say nothing of ourselves, that that idea should be dissipated. [Laughter and applause.] And, gentlemen, I confess in rising to address an assembly of men like this who are constructive, men who are dealing with problems of upbuilding, that I feel for once a great temptation to become a critic and to do as Uncle Joe Cannon says the Chautauqua lecturers do when they come into his district: "Damn everything over a foot high or a year old." [Laughter.]

It is obvious, gentlemen, that a good many of us who are business men, and are not especially orators, have at this time occasion to especially notice the trend of affairs

in the United States. We are becoming critics and we have a right to become critics of the prevailing methods of criticism. This has been a period of great prosperity in this country, and as always happens in times of great prosperity, the attention of the people has become largely diverted from the consideration of those problems which relate to the production of wealth and directed to those questions which relate to its distribution, and then critics thrive. A fine way to engage the public attention for any party, for any young man or for an idle man, — for the real critic is often an idle man, — is to assault somebody who is doing something, for it is the doers and not the drones in whom people are interested. [Applause.]

I have read in the magazines articles as to the tremendous power of certain men through great wealth. Banked by an impressive background in black type of figures representing the aggregated resources of a group of banks, railroads, etc., owned by hundreds of thousands of people, will be printed the name of J. P. Morgan, as if his influence was a menace to the liberties of the people of the United States. This is a favorite way, not only with the name of Morgan but with many other names, of creating the impression of the existence of a sinister power. These men have great powers, but how do they gain that influence over the property belonging to thousands of other people who willingly entrust it to their guidance? As a rule they exercise leadership and power because their exercise of it is wise, temperate, and just. Inert wealth has no power. Wealth in motion is power. And many of the greatest leaders in finance of to-day are not men of vast wealth, but those who through their qualities of care, initiative, and justice keep large bodies of wealth in useful motion. The limit of the power which comes solely through the ownership of wealth is a control simply over

the thing owned. Power which comes through leadership gained by the qualities which I have mentioned is comparatively unlimited in its extent and it should be. Why does James B. Forgan have such power as chairman of the Clearing-House Committee of the city of Chicago? It is not because of personal wealth, it is not because of control of the voting strength of this voluntary organization, it is not because he has the largest bank, but it is because he has shown through the many years he has lived in Chicago qualities which have inspired the confidence of business associates, and he has great power only because he exercises it with temperance, wisdom, and justice.

The effort of the magazines and the muck-rakers to create the impression that there is something wrong in this kind of leadership, which when properly considered is the triumph of individuality over wealth, is that to which I am objecting. Many of the great leaders in finance have become wealthy, but their greatness has come because of their leadership among men and their consequent power over wealth, and not because of the power which their personal wealth gives them.

Two of my friends had a conversation once which illustrates this point. They had become members of the boards of directors in several railroads. One of them said to the other, "It seems to me that we should become the owners of more stock in the railroads upon whose boards we sit. As it is now, since we own no appreciable interest in the property, what we say does not receive the attention which it would if we represented a substantial ownership. We will have more to say as to the policy of the railroad if we own more stock." "I do not agree with you," said the other. "Supposing that fourteen years ago you sat on the board of the Union Pacific Railroad and owned the majority of the stock, which might have been purchased at that

time at about ten cents on the dollar, and that you outlined at great length a policy for the road before its assembled directors. When you finished a little man with black eyes and spectacles and a black mustache, with his elbows on the table down at one end of it, would start in to give his ideas of the policy for the road and in thirty minutes would make your policy look like thirty cents. Who would have controlled the policy of that road at that time? You with your stock or Harriman with his knowledge and brains? What we want is brains and information, not stock." [Applause.]

So I say that to-day these men who are exercising great power in the United States are not as a rule men exercising that power through the ownership of stock themselves, but because they have brains and information and character; — because they do the right thing. The division of all wealth would only increase the power of such leaders. If we had the propaganda of some Idealists in effect and all property was divided *per capita* in the United States, the wielding of power would be as great for men of character and brains as it is at present, and as it is in every community where industry is diversified, and it must be diversified in order to have civilization. And let me tell you something: The man who follows the leadership of another man with his money, in my observation, demands a much stricter accounting than the man who simply follows a political leader with his vote. How many men would last as leaders of financial power through their influence over the investing classes of the country if they appealed to the prejudices of the people instead of to their reason as do many of the demagogic leaders of to-day? I would not include all politicians in this indictment, as I would not include all financiers in this eulogy. The demagogue is to the statesman what the "get-rich-quick" mining-stock promoter is

to the kind of financier I am discussing. In the management of all business there must be centralization of responsibility properly supervised, and also centralization of power. We cannot get rid of that in this country, we should not get rid of it; and the great trouble is to-day that an effort is being made systematically to create the impression in the minds of the people that in some way the centralization of power and responsibility in connection with the operation of great corporations is detrimental to the country and in some way closes the opportunity for individualism in the United States. Out of that has come very largely the great crusade against corporations under the provisions of the Sherman Anti-Trust Law. This is a law which, if literally enforced, will largely stop business in the United States — a law which would make us the laughing-stock of such great competitive commercial nations as England and Germany. We should be governed by laws made in conformity to the business progress of the times, framed by constructive men and not by demagogues. And now, when we need from our statesmen constructive suggestions by which this antiquated law which is so dangerous to our national commercial progress may be changed for the better, what do we hear from many of our politicians? A demagogic appeal to the great masses of the people that, now that the Supreme Court of the United States has read into the law the word "reasonable," they, the friends of the people, should be supported in an effort to change the law back into something which will be unreasonable, and get it into that shape where it can be more successfully used as an instrument of attack upon the constructive industries of the country. One of the things which business men must do in this country if we are to proceed and progress, as we will, — for I am not a pessimist, and I realize these annoyances must of necessity come up from

time to time in the great advance and progressing prosperity of all forms of industry in the United States, — what we must do as business men is in some way to be heard upon the subject by the people.

The public utility business, because of the fact that it is a natural monopoly, has been free recently from many of the annoyances which harass people who are engaged in the great competitive industries of our nation, and in this respect this particular business is peculiarly fortunate. The flow of capital through the medium of the parent company into the subsidiary public utility corporations has not encountered obstructive tactics to the same extent as have enterprises which are in competition. But how about the man who is forced, for the preservation of the interests of the stockholders of any great corporation doing an interstate business, into some sort of coöperative effort? Can he be certain that he is not in jeopardy under some possible construction of this law? Under this law, as interpreted by the recent court decision, the fixing of crime is a matter of administrative discretion instead of a matter of administrative duty, as the fixing of crime should always be. [Applause.]

The situation is far from satisfactory, even after this Supreme Court decision. What is the difference in the situation as it confronts a business man now, after the Supreme Court has held that reasonable agreements in restraint of trade may be made, as compared with the situation before that decision was rendered, when, under the strict reading of the statute, any agreement whatever in restraint of trade was unreasonable and those engaged in making them were liable to indictment? The only difference is this — that, whereas, under the old interpretation, the business man knew, when he entered into an agreement in restraint of trade, whether reasonable or not, that he

certainly could be held criminally under the law of the country, now, if he has entered into such an agreement, he may be held a criminal. That is all. [Laughter and applause.]

What is the definition of reasonableness? Let us consider the case of men who deal in perishable commodities such as fruit, meat, butter, or eggs. Suppose that they enter into an agreement that they will ship only five cars of perishable commodities per week into a town which can only consume five cars, instead of shipping ten cars. Such an agreement, coupled with an arrangement to sell at a reasonable price, would result in saving a waste of perishable commodities in that community to the extent of five cars, a loss of wealth which inevitably and ultimately comes out of the consumer. Such men would reasonably suppose that such a contract in restraint of trade — there being no agreement for unreasonable prices — would be regarded as a reasonable contract; but what would prevent the court from taking the view that the agreement, having been made for the purpose of preventing the sale of an oversupply competitively, was for the purpose of extorting a price unreasonably high as compared with a price after the slaughter incident to the competitive sale of materials which otherwise would be utterly lost? How can they know in advance whether or not the Department of Justice, at its discretion, would put them to the expense of defending themselves against a criminal indictment?

Take the United States Steel Corporation. This corporation has been selling at a lower price at times unquestionably than general conditions of the market would justify, and until recently they have been called a good trust. Unquestionably they have lost a good deal of business to competitors by maintaining stable prices recently. Now, suppose that dull business compels the Steel Corporation,

from motives of self-preservation, to sell its commodities at a lower price than its competitors can sell them, and yet the corporation, owing to the lesser cost of a large production, would remain alive. Would it then be a bad trust? Suppose it becomes absolutely necessary for the corporation, to keep in existence, to sell at the least price it could manufacture at a profit. Would not that policy involve every man connected with it, and the corporation itself, in danger of a legal attack? If they drive out their competitors, might not the court take the view that every step in the combination has been for the purpose of this ultimate result and that the corporation was liable to dissolution, and its officers to trial and imprisonment? This indefinite law places every man concerned in fixing the policy of great competitive corporations in jeopardy.

What is the remedy which the politician urges upon the public as a settlement of such a condition? Amend the law so that a man cannot rely upon any defense whatever under the rule of reasonableness. I see they are commencing an action against the magazine trust. What is to prevent them from going after the publishers' association in Chicago? The personal application of an unjust law sometimes induces a more careful examination of it, and if the Department of Justice proceeds energetically after the magazines and the newspapers it may be that the demagogue may not have his ideas exploited in the future so readily as now. [Laughter and applause.] There may be some possibility of an aroused public sentiment upon this matter because so many will be indicted that they will comprise a respectable minority of the voting strength of the nation. [Laughter.]

Under this law the fixing of crime is left as a matter of administrative discretion for the executive officers of the Government to determine in their own minds — to make

up their minds as to whether any particular action on the part of any one of these corporations is reasonable, and then to determine in their own minds as to whether or not the machinery of the Government should be turned against that corporation and its managers under the criminal statutes. That is the condition with which we are confronted now in the United States. Why is it so easy for the demagogues to make laws? It is because the transaction of public business is left to them and the business men do not arouse themselves to the necessity for action. When in Rome, in the old days, the middle men commenced to make their profits in the building of the aqueducts and the installation of public improvements, and the profits of commercial life became attractive, there was a time when it was difficult to find enough men of respectability to fill the public offices; and to-day the attractions of business life have turned the minds of strong men away from a political career to that of a business career. As a result the quality of men in public life is deteriorating. Consider the personnel of the United States Senate to-day and its personnel twenty-five years ago, and you have an example. We have comparatively to-day a very inferior class of statesmen in the United States. Look at some of the members of the United States Senate — statesmen of the type — but I desist. As the Spaniards say, "It is a waste of lather to shave an ass."

What we need in this country to-day is more interest on the part of constructive men in public affairs. Is there to be a united and earnest effort on the part of business men to amend the iniquitous Sherman Anti-Trust Law so that under it legitimate business can proceed without demagogic obstruction? This is one of the greatest of the questions which should appeal to us as business men. I thank you. [Loud applause.]

A FORECAST OF GENERAL BUSINESS FOR 1904

WITH COMMENTS ON PANIC PERIODS IN THE UNITED STATES

(*New York Evening Sun, January 2, 1904*)

In forming any reliable judgment as to business conditions for any future period, whether long or short, one should first well consider past conditions. Unexpected interferences with the normal laws of business development, caused by wars, radical tariff, or monetary legislation, or similar unusual occurrences, are liable to disarrange any forecast, yet, on the whole, the safest guide as to what will probably happen in the future is what has usually happened in the past. There seems no reason to expect during the coming year any unusual interference with normal business tendencies. We will have a presidential election, but probably not involving issues which will alarm business men as did those of 1896 and 1900. What general business will be next year will be largely determined by what has happened in this — just as the course of this year's business was largely determined by the great over-speculation of last year. While we have had drastic liquidation in the country during the last year, we are past any danger of panic. I am distinctly hopeful as to the future and as to the immediate future, though we can expect during the coming year no such business activity as we have enjoyed for the past three years. With these qualifying remarks, the following forecast of the business of 1904, and the reasoning upon which it is based, is presented.

No history repeats itself quite so exactly as financial

history. In countries whose business is done, as in ours, largely upon a credit basis, the cycle of business conditions which generally recurs may be defined in a very general way as follows: —

First, a panic.

Second, industrial stagnation and low prices.

Third, reviving confidence and an increase in the amount of outstanding credits, accompanied by higher prices and great business activity.

Fourth, speculation, overproduction, overcapitalization, and excessive borrowing, resulting again in the first condition, or a modification of it, such as a security panic.

While this cycle may be regarded as repeating itself in our country about once in ten years, there is a marked increase in the severity of panics occurring at the end of a twenty-year period, as compared with the minor disturbances occurring within that period, and also a marked difference in the conditions which follow the great panics, as compared with those which follow the smaller security panics. What may be called the great elemental panics of the United States — the twenty-year period panics — have occurred in the following years: 1818, 1837, 1857, 1873, 1893. Among the minor disturbances which do not deserve the name of panics, but which, nevertheless, have had their rise in an expanded condition of credits in business, and whose appearance has completed, approximately, a ten-year cycle, are those which occurred in the years 1831, 1848, 1884, and 1903. Other disturbances like that arising at the time of the Baring difficulties in 1890 have occurred, but a fair consideration of the financial history of the United States will suggest, as convenient for purposes of comparison, a division into twenty-year cycles, which will include the ten-year cycles above mentioned. This we may do as follows: —

First, the elemental panic, such as those which occurred in 1837, 1857, 1873, and 1893, during which there is not only the collapse of speculative credits, but a general fright among small creditors and bank depositors, causing a great contraction in outstanding bank and business credits of all kinds.

Second, several years of industrial stagnation and low prices, such as the years 1873 to 1879 and from 1893 to 1898–99.

Third, several years in which credits of all kinds increase in volume, prices rise, and business is active and prosperous, such as the years 1879 to 1882 and 1899 to 1901.

Fourth, two or three years in which these conditions continue and are accompanied by excessive speculation on the stock exchanges and elsewhere, resulting in abnormally high prices, overbuilding and overborrowing on the part of manufacturing and railroad corporations, and overcapitalization.

Fifth, a period of drastic liquidation like that of 1884 and 1903, which, while it does not prove disastrous to legitimate enterprises, wipes out large amounts of speculative credits, reduces stock prices, and causes the failure of unsound or doubtful enterprises. Such a minor disturbance does not affect to any great extent small credits or result in the long-continued depression of legitimate industries as does one of the great elemental panics; during which there is added to the liquidation of speculative credits the enforced liquidation of bank credits, caused by the widespread withdrawals of frightened depositors.

Sixth, a year or so of quiet business, contracted somewhat in volume as compared with the several preceding years, with easy money rates to sound borrowers, and on the whole fairly satisfactory. Such a year was the year 1885, and such will, in my judgment, be the one we are

now entering, — 1904, — and because of this fact it will be interesting to go into a few details in this connection. The bank disturbances of 1903 in Baltimore, Pittsburg, and St. Louis were not so severe as were those of 1884, when the Grant and Ward failures and the Marine and Metropolitan Bank troubles occurred in New York. But the panic of 1884 was chiefly one of securities, as has been that of 1903, and in their effect upon prices they were about equally severe. In considering the trend of business we may expect during the coming year, we must remember that there is a marked difference, as stated before, in the effect upon general business caused by panics such as those of 1873 and 1893 and security panics such as those of 1884 and 1903.

Henry W. Cannon, Comptroller of the Currency, in his report to Congress on December 1, 1884, said: —

> The crisis of May, 1884, seems to have been even more unexpected to the country than that of 1873. Although many conservative people had predicted that the large increase in railroad and other securities, and the general inflation which had been going on for a number of years, would bring financial troubles and disasters to the country, it was nevertheless generally believed that the depreciation of values and the liquidation which had already been going on for many months, and the further facts that the country was doing business on a gold basis, that the prices of all commodities were already very low, that an increased area of country was under cultivation and that the prospects were excellent for good crops, together with the larger distribution of wealth throughout the Union, would prevent a repetition of the panic of 1873. This general belief was measurably correct, as the panic or crisis was confined principally to New York City, although its effects were more or less felt in all parts of the country, and the liquidation resulting therefrom has not yet been fully completed.

While Mr. Cannon wrote but a short time after the security panic of 1884, his distinction as to the effects of the 1873 and 1884 disturbances proved correct.

Probably the best index of the general business conditions of the country as reflected from year to year is found in the records of the transactions of the New York Clearing-House, through which such a large percentage of the business of the country is cleared, and therefore its volume is in a sense registered. A consideration of the following figures fairly shows the relative effects of the 1873 and 1893 panics on business as compared with that of 1884: —

1873	$35,461,000,000
1874	22,865,000,000
1875	25,061,000,000
1876	21,597,000,000
1877	23,289,000,000
1878	22,508,000,000
1879	25,178,000,000
1880	37,182,000,000
1884	34,092,000,000
1885	25,250,000,000
1886	33,374,000,000
1887	34,872,000,000
1888	30,863,000,000
1889	34,796,000,000
1890	37,660,000,000
1893	34,421,000,000
1894	24,230,000,000
1895	28,264,000,000
1896	29,350,000,000
1897	31,337,000,000
1898	39,833,000,000

The deductions from the above figures are obvious. From an elemental panic like 1873 or 1893 the time necessary to recover prosperous conditions is from six to seven years. From a security panic like that of 1884 and 1903, not affecting materially bank deposits or credits, one or two years should restore approximately the old conditions,

so far, at least, as the volume of legitimate business is concerned. We can now consider the remainder of the cycle.

Seventh, several years of increasing credits, active business, and rising prices similar to the years 1887, 1888, and 1889.

Eighth, a culmination of the foregoing conditions and an era of high speculation, such as the years 1891 to 1892.

Ninth, an elemental panic like 1893, which, therefore, in all probability, will not occur again for quite a number of years.

That such will be the course of business in the future no one can maintain further than to say that, judging from the past, it is likely to be so. It is well to remember that the steadily increasing tendency toward conservatism in banking methods and management, and the increasing movement on the part of banking communities toward mutual helpfulness in the detection of unworthy applications for credit as well as in the meeting of local emergencies in times of financial trouble, as was illustrated recently in the cases of Pittsburg, Baltimore, and St. Louis, all make for more stable and safe conditions under which the periodical adjustment of too-expanded credits hereafter can probably be accomplished with a less degree of embarrassment to general business than heretofore.

CORPORATION REFORM

PRACTICAL PROBLEMS FOR THE INVESTING PUBLIC

(Saturday Evening Post, January 28, 1905)

THERE is at present in this country much talking on the subject of corporations and the creators of corporations. This is natural enough, for not only is the subject important, but inactive men and inert things do not interest other men in this rushing day, and the business critic, to get his audience, must swing his battle-axe at the doers and not at the drones. The world gives quick applause to the reckless critic. To the young man, ambitious to be known, the swift road to public notice is through denunciation of the work or personality of others. The long, hard road to general public respect may commence in criticism, but it must be honest criticism designed to destroy evils, not simply individuals, except as necessarily involved in the destruction of evils; and then this road must lead to constructive efforts and finally to the patient bearing of the criticism of others — for it is the doer of things who now and always must stand, as in the past, the shining mark for both the fair and the unfair critic.

This article is to be no defense of the abuses of corporations, or of the persons who may have abused the powers given by corporation laws to the injury of their fellows. Nor is it to be a criticism of the critics. But, owing largely to the usual psychological effects of long-continued prosperity upon trends of public thought, criticism is running riot in the country, as it did in 1892 and many other times in our past, much of it being useful, but much of it exceedingly harmful to the public good. In such circumstances

there is no reason why simple methods of thought are less valuable or less needed now than at those past times in our commercial history. If as individuals we feel that common sense is a remedy for our undue mental excitement, we need fear harm at no time from an overdose of it. The critic has so large a share of the field of public attention in these days that many people seem drifting toward wrong notions of the modern corporation, coming to regard it as something of a menace instead of a fine product of centuries of commercial evolution — still imperfect, to be sure, but one of the greatest agencies in upbuilding the general prosperity and happiness of the race that the world has known. This, in my judgment, comes from the refusal in current discussions to consider what portion of present abuses are due to the business device called a corporation and could not exist without it, and what are due to perverted human nature and therefore will exist as long as human nature does — corporations or no corporations. Let us consider this matter with the purpose of getting clearer ideas of what abuses of corporations can be remedied by our laws, and from what abuses nothing but our common sense as individuals can save us.

For our purpose we will define a corporation as a modern device which provides for the division of the ownership, risks, profits, and control of a property or business among the individuals owning and operating it, and then collectively represents them and their successors or assigns in relation to the public. The corporation owes its existence, among other things, to the impracticability of the coöperation of many owners under copartnership agreements or contracts. It is most essential to remember that a corporation is inherently a contract among men. The nature of the contract differs in different corporations, and hardly any two corporations are exactly alike. Now, a

corporation may be created to carry out a fair contract between men or an unfair one. If we as a people did more in translating into terms of simple contract the propositions designed to be effected through incorporations, we should not only lose less money to tricksters, but should distinguish more between evils due to corporation laws and the device, and those due to the particular corporation under complaint.

In the vast majority of cases in corporations complained of, the trouble arises from the translation into corporate terms of an unfair proposition as between the individuals interested, not from watered stock or alleged defects in corporation laws. Let us construct one or two corporate equations from their simplest terms — in other words, translate the relations of individuals into corporate relations of classes of stockholders similarly situated. As one of the fundamentals of this kind of financial mathematics we will find that we cannot extract a fair contract from an unfair corporation, and, conversely, cannot construct a fair corporation from an unfair contract. And it may be said here that a good many of our successful corporations, as well as corporation promotions, will not stand the test of such analysis, and that many unsuccessful ones will stand it. An "unfair" corporation may be successful and make money. A "fair" corporation may be unsuccessful and lose money. But, other things being equal, the "fair" corporation survives, and the form of analysis which we are endeavoring to point out will help the investor to distinguish it from its unfair neighbor.

Now, to illustrate: A, of long and special business experience, desires further to develop by new capital a successful plant and business worth $200,000. B, with $500,000 capital and confidence in A, wants an interest in the business, bringing a certain income combined with safety for his

principal. He is willing to take less income from the business than A in consideration of a less degree of risk and A's management. As a fair partnership agreement, A and B draw up a contract providing: —

1. That B's contribution of $500,000 to the business shall first receive out of the profits six per cent, and in case of dissolution shall be paid back out of the partnership assets before A receives anything.

2. That A is then to have, out of the profits remaining, six per cent on the $200,000 property and business contributed by him, and in case of dissolution, shall receive his $200,000 back after B has received his $500,000 and interest.

3. That any profits over and above the six per cent before provided for both A and B shall be divided in the ratio of two thirds to A and one third to B, and that, in case of dissolution, the surplus left after the repayment with interest of the respective contributions to the business as before provided, shall be divided in the same ratio.

4. That A is to have sole charge and conduct of the business.

To such an agreement, equitable and desired by both parties, expressed in a limited partnership contract, the public would, of course, take no exception. By means of such a contract idle capital is employed, pay-rolls are created and wages distributed to the community, which thus shares in the benefits incidental to the creation or development of any useful industry.

Now, we will suppose that A has no single B with $500,000 for investment, but has one hundred B's with $5000 each, all desiring an interest in the same contract which appealed to the single B. Among other methods of expressing this contract in terms of a corporation — since it is

impossible for A to take in one hundred limited partners — the following would be a simple one: —

1. Stock, $500,000, preferred first as to principal and six per cent cumulative dividends, to go to the B's.

2. Stock, $200,000, preferred second as to principal and six per cent, to go to A.

3. A certain amount of common stock to be divided in the ratio of two thirds to A and one third to the B's.

The minimum issue of common stock would be fixed at that amount, of which A, receiving two thirds, would then, with it and his $200,000 second preferred stock, have a majority of the stock of the corporation. Now, this latter issue of common stock would ordinarily be called "watered stock." It is not watered to enable A to sell the corporation, but to keep certain his managerial control over it. This common stock might be regarded as representing the value of the good-will; but as a matter of practice the common-stock issues of corporations are as much determined by considerations of control as by any ideas of the value of good-will. We should keep the foregoing illustration in mind in connection with what is said further on relating to watered stock.

But now, having considered the translation of a fair contract into a fair corporation, let us consider how a corporation can be used to cover up an unfair agreement. We will take first an oil company, one of those with which the readers of financial advertisements are familiar. Oil wells with a settled production generally sell, as between individuals in the oil country, at a certain price per barrel of daily oil production. Since the production is temporary, the purchaser expects to receive a very large return at first, for in order to make him a final profit he must receive back not only his interest, but his principal, before the wells go dry. On an investment of $30,000 in producing wells we

will suppose that the purchaser would at first receive from sales of oil $2000 per month. The rate he would at first receive on such an investment would vary in different fields and under different circumstances, but it would always be more than an ordinary interest return. Let us assume that the purchaser now desires to get an unduly high price for his property by deception practiced through a corporation. He proceeds, we will say, to capitalize his oil wells at $100,000 — the temporary large income at first enabling him to pay from one per cent to two per cent a month dividends for the time necessary for him to sell his stock. If, by showing such dividend payments, he succeeds in selling his stock at par, he has received $100,000 for what is worth $30,000.

This has been done by fixing the attention of an unwary person upon stock which is made to seem cheap by high dividend payments, and diverting it from that which is the essential thing — the relation of the intrinsic and convertible value of the portion of the oil production represented by each share of stock in the corporation to the price paid for it. The schemer may adopt collateral methods of diverting attention from the consideration of the real proposition presented by his incorporation. He may notify prospective purchasers that on a certain day the price of the stock will be advanced, and that in order to get it one must act quickly — or, in other words, without due investigation. He thus plays on the natural human instinct of avarice, hoping to override the acquired instinct toward temperate consideration of all sides of an investment. We may well distrust the unknown seller who wants a quick trade.

Let us consider another somewhat common case — a corporation founded on an undeveloped mine. A has an undeveloped mine, and is willing to give B a one-half in-

terest for the capital necessary to develop it — half and half being the reasonable division between him who furnishes the opportunity and him who takes the greater risk. Assuming that $50,000 was required to develop the mine, the fair corporation would issue, in order to express in corporate terms this agreement, $100,000 stock, which would be divided equally between the parties.

An unfair man, however, who would create an unfair corporation might capitalize at, say, $500,000, keeping $450,000 stock in return for his mine, and selling $50,000 stock to get the cash necessary for the development. When the cash was paid in for the $50,000 stock, the men who paid it own a one-tenth interest instead of a half-interest in the mine. It is surprising how many people buy mining stock without any conception of the relation of the question of capitalization to the real nature of the proposition as advertised.

Similar illustrations might be given indefinitely. They seem rudimentary; but, in the case of many corporations, a method of analysis such as this, simple as it may seem, may open the eyes of the wisest when applied to some of the great industrial promotions of the day as well as to some of the smallest.

No man in the purchase of stock or bonds has given the proper consideration to his transaction until he has comprehended fully the terms of that underlying contract, expressed in its simplest form, which is involved in every corporation in existence.

It is easy to understand, from illustrations like the first given in this article, that watered stock is not only not necessarily unfair between stockholders, but often essential to the complete fulfillment of fair arrangements between them. This device, harmless and often necessary in itself, has — through its association with efforts of corpora-

tions and individuals to dispose of stock at fictitious prices — come to be very widely condemned. So immensely large is the volume of watered stock in this country, issues alike by both large and small corporations, that it would seem even to a prejudiced observer that it must subserve at least some good uses, because if it were wholly wrong, it would be inconceivable that business men should so generally sanction it.

Thomas B. Reed once said: —

> Those things which push themselves forward, and by slow degrees force themselves upon the attention of mankind, are unconscious productions of human wisdom, must have honest consideration, and must not be made the subject of unreasoning prejudice. Above all, no one has the right to presume such a movement wrong. It may be wrong; but when business men all over a great nation pursue the same course the presumption ought to be that they are right. Notwithstanding, the first idea is to make them stop.

Stock in the modern corporation represents not only ownership, but the location of control. The stockholders of a corporation may unanimously desire permanence of control in a certain set of men, in which event they might find it impracticable to have stock issued only in an amount equal to the cash value of its property. The notion that stock is always watered to sell or to perpetrate some fraud is erroneous. The public is not necessarily injured because stock at par does not always represent an equal amount of cash or its equivalent.

Varying values in corporation assets are reflected in the selling or market value of the stock — not by constant alterations in the stock issues themselves. Dishonest men may, and do to some extent, use watered stock to create impressions of value which does not exist; but the abolishment of watered stock would not materially hinder them.

Wrong impressions and overvaluation of stock worth par or above par are created as easily as in the case of watered stock worth less than par, and generally by similar methods. Stock exchanges through the improper manipulation of operators are frequently used to create wrong impressions of stock values; but in such cases, and all cases, it is not the water in the stock that causes the chief trouble among unwary investors. It is the water in the prices they pay for it. And that kind of water may be found at times irrigating with remarkable impartiality purchases of stocks at all prices above and below par.

Since it is human nature to want what others want, or seem to want, the creation by manipulation on stock exchanges of an apparent demand for a stock is often followed by a real demand for it from the public or "outsiders." If, through such methods, the outsider buys a stock at an excessive price the harm is done whether the stock bought at the excessive price was intrinsically worth par, below par or above par.

Economists tell us that the value of a thing depends chiefly upon its exchangeability. At times the appearance of exchangeability, or rather marketableness, of stocks at certain prices is sustained artificially by manipulation until the outsiders have absorbed the amount of stock on hand to be marketed. Then, to their surprise, the stock suddenly loses marketableness except at a lower range of prices. It would seem that agreements are not uncommon on the part of real owners of stocks to withhold them from the market so as not to interfere with the manipulation of market quotations on small transactions in such a way as to induce purchases at a higher range of prices.

But here, as in all business, the wrong consists not so much in the arrangement as in its purpose — whether it is intended by its means to sell to ill-informed people some-

thing for a price known by the seller to be excessive, or, on the other hand, to be fair and reasonable. Underneath all devices which brilliant or bungling men use to sell their wares is the question of intent — the intent to gain fair profits through fair dealing, or the intent to make unfair profits without that due consideration for the rights and interests of others which every honest man has.

It is claimed, however, that watered stock in the case of natural monopolies like railroads, water works, gas and electric companies, tends to prevent reductions in rates. My observation as a business man is that corporations endeavor to make the maximum profits in any business which are consistent with its preservation and proper development. If they reduce charges voluntarily it is not because they feel that they are earning too high a rate of dividend upon their capitalization, but because by the reduction and consequent increase in business they expect to make a larger net profit and eventually pay higher dividends. There is little altruism in corporate policies. Liberal policies are generally just as much aimed at high profits as narrow policies. The different policies are the result of different views as to which policy — high prices or low prices, broad management or narrow management — will, in the long run, give safely the highest profit.

The Standard Oil Company, whose stock sells around 640, and cannot be considered watered; the United States Steel Company, whose common stock now sells around 30, and is considered somewhat aqueous; the Pennsylvania Railroad Company, whose stock now sells around 138; and the Erie, whose stock now sells around 39, — all are seeking to make the highest profits possible in their business without destroying or diminishing it. If they are not, — under some theory that they owe it to the public not to make so high a rate of earnings upon their capitaliza-

tion, — let some one prove it and see how long the stockholders will allow that kind of a management to stay in power. Now, our argument is not to the effect that the Government or the municipality should have nothing to do with corporations operating under special franchises. It is to the effect that, if the Government or municipality is to correct unreasonable rates of charge, they should do it directly and not by laws interfering both with rates and with capitalization.

Capitalization is inherently a matter of private contract. It is one of the means by which a company puts itself into condition to render public service. To limit by law the right to devise means, except they be fraudulent, is to limit to some extent the moral right to demand certain results. The people have a right to demand of their public service corporations good service at reasonable rates.

If the Government or municipality has fixed or limited the capitalization of the natural monopoly it has limited its moral right to impose rates which may be otherwise reasonable for the community, unless, at the same time, they afford a reasonable return upon the actual investment represented by stocks or bonds at par. But suppose the proceeds of the bonds and stocks at par have been so unwisely expended that the company cannot properly serve the community at what would be reasonable rates in ordinary circumstances, and still receive a proper return upon its investment. By this limitation on capitalization the tendency is to saddle upon the community the cost of any indifference or incompetency in handling the business.

We have, in this country, a good illustration of the adverse effects upon the public of what may be considered the paternal protection and regulation of the capitalization of corporations operating natural monopolies. This is the Massachusetts Gas Commission Law. Many econo-

mists have long praised this law, professing to see in its limitations upon the rights of capitalization and the rate of earnings thereon, benefits to the community. Within the next few years, however, if not sooner, I think impartial economists will be practically a unit upon the failure of the law in its present form properly to conserve the best interests of Massachusetts gas consumers. The criticism is not of the right of the commission to regulate prices of gas, but of the policy of regulating capitalization.

The effect of the Massachusetts law has been to discourage proper efforts to better the service or reduce rates after the stockholders received the limit in the rate of dividend legally allowed them. Massachusetts gas consumers, as a whole, are now being injured in the matter of both gas service and gas rates as compared with companies in other States operating some of them under restrictions as to rates, but all without restrictions upon the right of capitalization. As someone has said, many Massachusetts gas companies, paying their regular dividends upon their limited capitalization, have gone to sleep.

Many of them, if notified simultaneously of compulsory cheaper prices for gas and freedom to capitalize in any way they please, provided it would not involve fraud on any one, would immediately modernize their business, increase their mileage of mains and better their service in order to induce the larger consumption necessary to reduce the cost of production and to produce the old or a larger rate of profits. Leading economists are already recognizing the defects of this law, formerly so universally praised. Its main defect is interference in capitalization, designed to prevent stock-watering. It prevents it, but, by so doing, it interferes with the proper protection which the commission should afford the public in the way of imposing reasonable rates upon gas companies.

And so it would be with railroads, waterworks, and electric light companies. As it is with such corporations, so it would be with corporations operating in competitive business.

The proposed laws to reform corporations should not interfere with capitalization except to prevent fraud, and fraud is not inherently involved in watered stock. They should recognize that appraisement of property through stock issues does not mean realization on them. Such laws should be most carefully considered and should be aimed at the prevention of fraud by means of watered stock, not at the abolition of the right of owners of property both to appraise and manage it through stock issues. If we tamper with watered stock by legislation in an inadvisable way we may not only fail to secure relief from its alleged evils but most seriously handicap our business and commerce.

The investigator into proposed laws to regulate corporations must give proper thought to the business contracts as between individuals which are implied in great corporations. The problems of to-day relating to corporations are first those relating to the misuse of corporation laws in order to disguise unfair contracts through involved corporate charters and security issues, and, second, those relating to the attitude of Government toward corporations which have grown to such size that they have come into relations with the people at large, often by the reduction in the price of a commodity to the point where competition by others is unprofitable. In the latter cases, where this result is due to the enjoyment of special privileges, interference by law is demanded to abolish such privileges.

In regard to the first class of problems — and it is with these that this article has been chiefly concerned — if I have rightly interpreted the idea of "publicity," it has for at least one of its purposes the aiding of the prospective

or present stockholder to a clearer perception of the basic contract underlying the corporation of which he is or proposes to be a part owner. While efforts along this line involve many debatable questions as to invasion of private rights by Government, they will not be opposed by many properly organized corporations. When all is said and done, however, we shall still find the business man relying chiefly on himself for protection from imposition. Let us quote Thomas B. Reed once more: —

> Almost everybody announces that what we need is "publicity." Even this is vague. Do you expect the public to be intrusted with the cost sheets? If you do not, then what will your publicity amount to? If you mean by "publicity" such a statement as will enable the outsider to buy wisely, or the stockholder to sell at the true value, I fear we may be going beyond the province of free government, which certainly thus far has left the task of keeping his fingers out of the fire to the citizen whose fingers they were.

One leaves this parting word to the investor: In considering any stock investment, remember the simple method of analyzing the fundamental contract underlying every corporation to ascertain whether, if relating only to several individuals instead of several classes of security holders, it would be fair or unfair. Uncover the "intent" of corporations, for beneath each one is a fair or unfair one. When the unfair one is found, heed the danger flag, even though the future profits of the corporation seem likely to be so large as to offset the initial disadvantage of the outside investor in its securities. Men who propose unfair divisions of prospective profits are not likely to be good trustees of accumulated profits.

If there is anything in the signs of the times the United States as a whole is passing through a period of agitation similar to that which some years ago resulted in the Granger legislation in a number of Western States.

That there should be a change in laws to correct existing abuses does not admit of doubt; but it is well to remember that laws affecting our highly developed, interdependent and sensitive business relations should not involve a too radical application of untried remedies. Theodore Roosevelt possesses, under the Constitution, not only the right of suggestion to Congress, but the right of veto upon its action. He has assumed the leadership of an existing public sentiment favoring legislative and judicial correction of certain corporation practices. To be the true man and true leader we all believe him to be it is possible that he must finally stand against a tendency toward too radical legislative action.

Roosevelt, the man, may be approaching another great test. If he accomplishes his purposes in compelling legislation, — and the American people who have watched his career believe he will, — he must then hold his mind in an equipoise which may sorely disappoint the radicals who now applaud.

It is not the highest test of strength to lead aroused public sentiment. The highest test is to oppose it when it is wrong. A President loves popularity. To a public man it is often the wine of life. And yet the President who does right must at times risk its temporary loss. As McKinley preserved our national dignity only by risking his popularity in standing against the recognition of the Cuban Republic and those who would rush unpreparedly into war, so Roosevelt may have to undergo similar risks for right principles in connection with the movement he has inaugurated. That he will be willing to risk all for the right his past indicates; and this belief in his willingness is the basis of the general confidence that his efforts will lead to improved conditions and not to chaos and reaction.

AGAINST INSURANCE OF BANK DEPOSITS

(Chicago Inter Ocean, September 13, 1908)

In a volume entitled "The Banking System of the United States," published fourteen years ago, which is devoted to a rather technical discussion of the relations to the business of the country of the purchasing power created by the building-up of bank credits, I devoted three pages to a statement of my belief at that time that a law providing for the insurance of deposits would tend to produce a stability in bank deposits which would lessen withdrawals in times of panic, and therefore lessen the severity of the liquidation of loans against deposits incident to a panic, which, as we all know, wipes out the purchasing power of the country and tends to produce a lower level of prices and to demoralize business by an abrupt lessening of the circulation of all money. This includes not only that issued by the Government, but the money in terms of which the bulk of our business is done, to wit, drafts and bills of exchange, which may be termed "bank-credit currency."

At that time I had not devoted myself to a thorough study of the question of bank-deposit insurance, but when I was appointed Comptroller of the Currency in 1898 one of the first tasks to which I set myself was the study of this question, long before it became a matter of general discussion in the country. It was my desire when I entered office in my first report to Congress to embody a recommendation of such a law, and I had the Government experts make a statistical investigation of the question. To my regret, I found I could not bring myself to the support of the proposition.

It would unquestionably have been a popular recommendation to make, as the superficial advantages of such a system are many, the greatest in my judgment being the one which I have endeavored to point out in the volume to which I have above referred. Yet when I contrasted the fundamental objections, to which I will refer below, with the theoretical advantages which might be gained by the law, I found myself in no doubt as to the position I took.

Referring to this position, I have written two letters which I insert below. Both of these letters were written before the matter became the subject of issue between the Republican and Democratic parties. One of these letters was written to Governor Hoch, of Kansas, who requested my opinion upon the proposed Kansas law, and the other to the Honorable A. J. Hopkins, of the Finance Committee of the United States Senate, who also desired my opinion as to the feasibility of such a general law. These letters, written at the time they were, will absolve me, I hope, from any idea that my opinion upon this financial and business measure changed because of the position of two great parties thereon.

The fundamental objection to a system of deposit guaranty is, that if in the minds of our people generally the idea is fixed that the safety of their deposits is not dependent upon the wisdom and conservatism of the men in the banking business who handle them, there will be a tendency on their part, because of the extra inducements offered to them in the shape of concessions in the rate of interest, and otherwise, by irresponsible and reckless bankers, to intrust to their use too great a proportion of general deposits.

The result will be that the business of the country will not be upon as sound a basis thereafter as it is now when the veto power of the conservative bankers upon specula-

tive enterprises is one of the great safeguards of sound business conditions and general prosperity.

Many arguments are made as to the injury of such a law to the banking community, but my conclusions were not reached because of a consideration of these arguments, for the banks could well afford, in the interests of the common good, to submit themselves to regulations not in violation of fundamental rights which would insure greater prosperity and safety to the business of the country as a whole. But this law, in my judgment, would not bring about such a result. It is unsound from an economic basis, and in the general interest of all business should be defeated.

The following are the letters to which I have referred above, both written, as heretofore stated, before this matter became the subject of controversy between the Republican and Democratic parties: —

CHICAGO, ILL., Jan. 11, 1908.

The Hon. E. W. Hoch, Governor of Kansas,
Topeka, Kansas.

I have your letter of January 6. There is no reason, in my judgment, why the State of Kansas cannot provide for a system by which, if there was a tax levied on the average deposits of state banks, a fund can be created without undue burden upon the banks which would be sufficient to provide for the deposits of failed banks, thus constituting a practical guaranty of deposits by the associated banks of the State. The details of your proposition I have not had before me, and, of course, before expressing an opinion thereon, I would like to see them.

While Comptroller of the Currency I had hoped to be able to advocate this plan for the national banks, but the detailed statistical examination which I made convinced me that, because of the great disparity in the percentage of mortality of banks in different sections of the country, a uniform rate of taxation such as would be constitutional, would be unjust. In other words, a uniform rate of taxation such as would apply to the United States as a whole would violate the fair principles of insurance, that the rate should vary with the risk. The history of the system

showed that the risk taken by depositors in widely different sections of the country varied very greatly, owing to the different environment surrounding business. I was unable to bring myself to recommend the adoption for the national banking system of a law ignoring this. These objections would not apply to any particular section of the country, such as a State. In Kansas, you could very safely, with justice, provide for such a law carrying a uniform rate of taxation. The general line of thought which led me to advocate, some fourteen years ago, this plan, you will find contained in a little book which I published, a copy of which I will send you, which, however, I trust you will return to me, as this is the only copy I have.

CHARLES G. DAWES.

CHICAGO, ILL., March 3, 1908.

The Hon. A. J. Hopkins, United States Senate,
Washington, D.C.

MY DEAR SENATOR:—

I do not know that the question of the constitutionality of a law providing for the joint guaranty of deposits on the part of the banks has ever been passed upon. In my study of the question I could not find any authorities in this connection, but it has occurred to me that a law providing for the compulsory payment by each bank of a fixed percentage of their deposit line for the purpose of guaranteeing the combined deposits, which is in effect a system of compulsory insurance, violates the fundamental principles of insurance, which is that the rate should vary with the risk. My investigation into the matter of the relative risks incident to the banking business in different sections of the country disclosed such a discrepancy that I did not feel that I could recommend, in my report to Congress, the passage of a law providing for a uniform rate of payment by the insuring banks. It seemed to me it would violate the constitutional provision that all rates of taxation should be uniform.

If you will take my report as Comptroller of the Currency for 1908 to Congress, you will find there, in connection with a discussion of asset currency, statistics which will show the very great difference in the risk, based upon the experience of the national banking system that a depositor takes in Nebraska and Kansas, for instance, as compared with a depositor in Massachusetts.

To be sure, it will be urged in opposition to this that the tax necessary to insure deposits will be so small as to make such an inequality little felt. If, on the other hand, the effect of the law is to create the impression that all deposits are equally safe and would throw a larger proportion of the banking business into the hands of the weaker concerns, such an objection would not meet the point.

I confess that the theory of making more stable deposit balances by such a system of insurance was at first very attractive to me, but the line of thought I am now giving you is that which finally fixed my conclusions.

CHARLES G. DAWES.

THE ISSUES OF THE CAMPAIGN

(Delivered at Joliet, Illinois, Saturday Evening, September 15, 1900)

THERE are two great issues in this campaign — one relating to the domestic prosperity of our nation and one involving the relations which our nation now maintains towards our new island possessions and to the rest of the world. The Democratic Party has claimed that the paramount issue is "Imperialism," a strained and inappropriate term which they apply to the Administration's foreign policy with the purpose of affecting voters thereby. I propose to treat this as the paramount issue, but, before so doing, wish to speak briefly upon the declaration in the Democratic platform, pledging that party to the free and unlimited coinage of silver at the ratio of sixteen to one.

So far as the argument upon the silver question is concerned, I believe that its fallacies were exposed during the last campaign, and if they were not completely demonstrated then, the prosperity and higher range of prices in the nation since the firm establishment of the gold standard has completed the argument. We heard much from Democratic orators in 1896 about the conspiracy of the gold men into which they entered with the object of having the rich man's dollar get too much of the farmer's wheat. Especially did we hear about the conspiracy to make the dollar dearer in order to make the outstanding mortgages which were payable in dollars more valuable and harder for the farmer to pay.

In the course of human events it has transpired that if our Democratic friends were right about the conspiracy, the conspirators were wrong in their calculations; for fig-

uring wheat at fifty-five cents, which it was much of the time in 1896, as against seventy-five cents this summer, the man with a thousand-dollar mortgage can get rid of it for about thirteen hundred bushels of wheat now, when most of the time before the conspirators got to work, it would have cost him about eighteen hundred bushels. It would seem that the conspirators at this rate lost about five hundred bushels of wheat to the thousand-dollar mortgage if they were in that line of business. There have been times since 1896 when the farmer could have relieved himself of the mortgage for seven hundred bushels of wheat.

I think that on this question our people have come to see that after all it is not so much the abstract amount of silver or the abstract amount of gold that is in circulation which alone fixes the supply of money which determines prices, but that this supply is made up not only of gold and silver, but of Government notes and bank checks and drafts, all of which have an equal purchasing power with gold when interchangeable into gold on demand.

Our people see that when the silver people threatened the interchangeability of all our money with the best standard, they destroyed confidence and drove money out of circulation and large lines of credit out of existence. And so this Administration enacted a law making gold the standard, and assuring the public by this law of its safety. Then it was that confidence revived, and money again came into circulation and general prices rose even though the price of silver continued to fall.

But now a portion of the Democratic press, in spite of the plain and specific declaration of the Democratic platform, pledging the party, if successful, to the passage of a free-silver law, is attempting to make the people believe that the party did not mean what it said, and that Democratic success will not endanger the stability and honesty

of our medium of exchange. In order that there may be no false impressions about the position of the Democratic Party upon this issue, let me call attention to the fact that the discussion which arose among the Democrats at Kansas City as to whether the free-silver plank should go into their platform was mainly devoted to the question of the popularity of the plank, not as to the validity of the principle it involved.

The majority of those said to be opposed to free silver at Kansas City argued that it should be kept out of the platform because it was unpopular, not because it was wrong. But even this argument was overridden, and the plank was adopted. If the Democratic Party is successful, the people are going to believe that they are honest in their support of this principle, and if they do believe this, this country will have hard times long before a Democratic Senate is elected or an attempt is made to pass a free-silver law.

The man with money in the savings bank and the man with money loaned is timid. He is going to rightfully assume that, if the Democratic Party is successful with free silver in its platform, there is a reasonable chance of the enactment of a free-silver law, and he is in a position to take no chances. Many creditors will call for their money fearing that it may be depreciated by law and will redeem it in gold at the Treasury as fast as possible. Gold will be hoarded, and a rapid decrease of the country's available cash circulation will draw attention to the increasing disproportion between the cash and credits of the country. Depositors will then become frightened, and we will be in danger of a disastrous financial experience.

The temporary protection which a Republican Senate might give the gold standard would probably have little effect in preventing that loss of confidence in the stability

of our medium of exchange, which is, above all things, essential to the business prosperity of all classes in this country and in terms of which all business is done.

I believe that the continuance of the prosperity of this country depends upon the success of the Republican Party, which opposes the free coinage of silver because it believes it unequivocally a moral and economic wrong.

Let the man who is not wholly satisfied with the existing conditions ask himself the following questions: —

First. If a Democratic Administration comes into power, have I any reason to believe that it can improve industrial conditions by means of the legislation recommended by them?

Second. If a radical improvement of existing industrial conditions cannot be expected from a Democratic Administration, what risk is there of disturbing existing domestic conditions adversely by helping to place a Democratic Administration in power because I am not satisfied with the present foreign policy of the nation?

I think reflection upon these questions will convince such a man that with the issues presented as they are by the Kansas City platform, the voters of this country cannot stop the nation's progress in the world without stopping its prosperity at home.

The realization of this by the Mugwump press is one of the few amusing incidents of a very serious campaign. At this time in our nation's history the Republican Party is the party of achievement and progress, and the man, dissatisfied with present conditions and who hopes for better conditions, should work for them through the party of progress and not through a party of pessimism.

In the discussion of the Philippine question, the indications are that we may expect to hear two leading lines of argument during the campaign.

One line of argument as to our future course and duty in opposition to the Administration's course is based largely upon the personal interpretations put upon our Constitution, and the sayings of our former statesmen upon other subjects, by those who have had no opportunity to personally ascertain conditions in the Philippines as they actually exist. The other line of argument is based upon the consideration of facts and conditions as they are in the Islands to-day, and seeks to uphold the wisdom of the past and future plans of the Administration by showing that under existing conditions they were the only plans which were just, right, and honorable.

Generally speaking, the first line of argument is of the nature often resorted to by those not wholly informed of the facts in a case, and who therefore are inclined to magnify the deductions of a false logic as against those of fact.

Mr. Bryan's academic arguments should be given full consideration in public discussions of the Philippine situation with its pressing problems; but before the theoretical version of the question which Mr. Bryan presents is answered, it is first in importance in seeking to define our national duty to examine facts and conditions as they exist, and then, after ascertaining what line of national conduct is demanded by conditions as just and right, to then see whether it is in conflict, as claimed by Mr. Bryan, with those fundamental principles so precious to the American people.

Let us, therefore, consider first the conditions that exist in the Philippine Islands. It is necessary to do this in determining whether we can immediately withdraw from them, or, if we stay for a short time, whether we can then give them self-government and withdraw — in other words, whether we can safely pursue another policy than the one inaugurated by the present National Administration.

The population of the Philippine Islands is estimated at about 10,000,000 people. These peoples are divided into hostile tribes, the chief among them being the Tagalogs, who are led by a corrupt scoundrel named Aguinaldo, who first plotted the murder and massacre of the soldiers of the United States, and foreigners resident in Manila, and after being discovered, made a night attack upon our troops. Of the sixty tribes into which the Philippine population is divided many are continually at war with each other. The population is largely Malay, and has among its members not a few naked savages and even cannibals. It is indolent and its leaders are unscrupulous and corrupt.

In his speech before the Hamilton Club, of Chicago, in November, Professor Worcester of the first Philippine Commission, in the course of a considerable discussion of the crimes committed by the Filipinos upon their own tribesmen, says: —

> In southern Luzon the Bicols had arisen against the Tagalogs at several points and were asking for help. The Tagalog general, Lucban, had extorted some $200,000 from the inhabitants of Samar and Leyte and had put it into his pocket. The people of Hohol were calling for aid. The Moros and insurgents had fallen to fighting each other in Mindanao, where we had not landed a man. Tomas Aguinaldo, an insurgent official and cousin of the dictator, had gone to Mamburao, on the west coast of Mindoro, and had there organized a genuine piratical expedition with the avowed object of plundering the peaceable inhabitants of the Calamianes Islands, Palawan, Masbate, Subuyan, and Romblon. This plan has been carried out and he has returned to Mamburao heavily laden with plunder. . . . I could go on indefinitely with illustrations, but I believe that those given will suffice.

It was the unanimous opinion of the first Philippine Commission — composed of the following members, President, J. G. Schurman, of Cornell University; Professor Dean Worcester; Charles Denby, late Minister to

China; Admiral Dewey; and General Otis — that the inhabitants of the Philippine Islands are at present unfit for self-government.

The standing and character of these gentlemen cannot be impugned, and their conclusions, made after a most painstaking and careful personal investigation, and after months spent in personal contact with conditions in the Philippines, must be regarded as conclusive, supported as they are by the evidence of other distinguished men who have visited the islands.

The Philippines are a group of islands, nearly one thousand in number. The inhabitants of the islands lack racial unity; and they have in their relations with us thus far proved treacherous and unreliable. They have for hundreds of years been under monarchical rule and do not understand the first principles of self-government. Under present conditions their self-government could not result in anything but a small, cruel, and corrupt oligarchy, if Aguinaldo were recognized and his Government maintained by the forces of the United States. If the United States should remove the strong hand of authority from the islands there would probably be anarchy. A small fraction of the people, represented by Aguinaldo and his tribe, could not be recognized as in any way representative of the entire population. And if they were representative of the entire population, their authority would probably mean the massacre of the foreigners in Manila and a reign of bloodshed and tyranny. If the United States should withdraw its sovereignty from the Philippines it would not be liberty which would result, as our Democratic friends maintain, but it would be license, and anarchy, and misery, and wretchedness unspeakable.

Now, my friends, it is perfectly evident under these conditions which are thus represented to us by all those

who have been in the Philippines, including the first and second Commissions appointed by the President, as well as by the officers of our army and our diplomatic representatives in the Far East, that the Filipinos are at present incapable of self-government in the American sense of that word. This is the attitude of the Administration, determined by its conservative consideration of conditions.

We may discuss every plan which could be made for the future of the Filipinos, and, if the recognition of their present incapacity for self-government is not involved in it, we must confess that plan a failure whenever we confront and reason upon conditions in those islands as they are.

Now, the effort of Mr. Bryan and the Democratic Party is to get our people to believe that in some way this attitude of the Administration toward the Filipinos violates certain principles which we have always upheld and maintained in this nation. They maintain that we should give the Filipinos self-government. But they do not discuss at length with us their capacity for self-government. They say that we have no right to ask whether they are capable of self-government; for if we should decide they were not, then we would make them subjects, not citizens, and that would be "imperialism." These theoretical arguments, of course, assume by implication that these sixty different tribes of savages and semi-civilized Malays are capable of self-government, or, if they are not, that the American people are estopped from recognizing the fact.

In order that we may get right notions on these fundamental matters, and relieve the perplexity of any one who feels that there is anything in the attitude of the Administration, however necessary it may seem from the standpoint of conditions, which is inconsistent with the highest principles of justice, let us reason a little on the question of self-government.

Among the inherent rights which men possess is the right to life, liberty, and the pursuit of happiness, and so far as these rights are concerned, all men are created equal.

But while the enjoyment of these rights makes a man under any government a self-governing man and a free man, it makes him so only in so far as his freedom does not interfere with or infringe upon similar rights to other men. Liberty to the individual is not inconsistent with the control over him of the government under which he lives, and while government fixes the limits within which the man can govern himself, it also fixes a limit beyond which he cannot go because he then infringes on the rights of others and the rule of the greatest good to the greatest number is transgressed.

Now, when under this Government of the United States, or any government, an individual shows, even within the limits of the free action which the law allows, that he is unfit to be entrusted with the individual right of self-government for the reason that he infringes upon or endangers the lives and liberty of others, then the Government interferes with his individual self-government and puts him under restraint without his consent. Among those thus held under restraint in this country are the American Indians.

Now, my friends, a government represents only a collection of individuals, and is the means by which each individual is protected in his right to life, liberty, and the pursuit of happiness, because it imposes just such restraints upon individuals who menace those rights. That which is most important in all human governments is the protection of these rights of the individual, and the great desideratum in government for any people is that form which will bring the greatest good to the greatest number by insuring to the individual his inalienable rights. The protection of

these rights is the fundamental thing; and the form of government which best protects them is self-government with peoples who are capable of self-government, and it may be some other form of government with peoples who are incapable of self-government.

There is no right of self-government — so called — in the Filipinos unless that form of government can be established which will insure to the individual there reasonable protection to the inalienable rights secured by government to the individual here. Whenever a so-called self-government cannot insure these rights to its citizens, it has no more right to freedom from restraint in the community of nations than any individual, incapable of proper self-control, has in the community in which he lives.

And so, among nations as among communities, there are certain ones which need restraint. Thus it is that in the community of nations Turkey is restrained. There is no such thing as an inalienable right on the part of a government to freedom from interference from other governments unless that government so protects the rights of its individual citizens that the plain principles of humanity are not violated. It was in recognition of this principle that our Government rightfully fought the war with Spain. If Spain had been a self-governing republic, instead of a monarchy, when she outraged every principle of humanity in Cuba, the war of interference would have been waged by the United States for humanity's sake just the same.

If the Filipinos are incapable of self-government, it matters not what their government be called; the fact remains that when the United States leaves, some other nation or nations will take up their government. And the United States has no right to interfere with that nation or nations unless she is willing to again step in and restore order, and guarantee to the residents of the islands, includ-

ing resident foreigners, life, liberty, and freedom from the terrors of anarchy and savage massacre, of which they have already been once in deadly peril.

The Democrats in this campaign ignore the question as to what will happen to the rights of the majority of the individual Filipinos if they are allowed a so-called self-government, for the discussion of what they call the right of the Filipino race, or rather races, to self-government.

We maintain that the proposition that the Filipino races should have self-government becomes fundamentally important only when it is demonstrated that the so-called self-government will protect the inhabitants of the islands in their individual and inalienable rights to life, liberty, and the pursuit of happiness. It is well, in the midst of the assertions of our opponents, that we are opposing the principles of freedom in advocating the control of the United States over the Filipinos, to remember the following truths: —

First. That freedom is something of primary importance, first to the individual.

Second. That no matter by what name we may call a government it is not a free government unless it is able to protect its individual members in their inalienable rights.

Third. That if the United States is not convinced that upon its withdrawal a so-called self-government of the Filipinos can secure to the inhabitants of the islands, including its foreigners, their rights to life, liberty, and pursuit of happiness, when by retaining sovereignty it can do so, then the United States strikes a blow at the freedom of 10,000,000 people and lets them pass into the control of some foreign monarchy, or, what is infinitely worse, into the hands of a half-savage and cruel oligarchy, probably headed by the briber and assassin, Aguinaldo.

Mr. Bryan's three propositions for the settlement of the Philippine situation are these: —

First. To establish a stable government there.

Second. To give an independent government to the Filipinos.

Third. To protect that independent government from outside interference.

The first proposition to establish a stable form of government is exactly what the present Administration is doing. The second proposition is at present impossible for reasons which we have endeavored to state. But for the sake of argument, let us suppose that, in accordance with Mr. Bryan's second proposition, some sort of so-called self-government is established among these semi-civilized savages, and let us consider his third proposition.

This proposition is a sort of Asiatic Monroe Doctrine which shall apply as far as the United States is concerned; but shall not involve equal rights on the part of foreign powers. He forgets that, as a mere interloper without the sovereignty she now possesses in the Philippines, the United States would occupy about the same unhappy position in the Far East as a European power would occupy in attempting to interfere, contrary to the Monroe Doctrine, in islands in the American seas. As some one has well said, "The Monroe Doctrine is a law of national self-defense." It is not an arbitrary doctrine made for purposes of extending national responsibilities without incurring national benefits. What an absurdity it would be for the United States, possessing no right, through sovereignty, to interfere with the foreign or domestic policy of the so-called independent Filipinos, to assume to establish a protectorate over them, with just as large an army necessary to its maintenance as if the United States controlled the islands, and to mix in every quarrel with foreign powers which this

inexperienced collection of natives would inevitably stir up.

If these natives should declare war against some foreign power, would not that mean that the United States must interfere, and would not that interference either mean war on its part with a foreign power, or, if it decided adversely to their position, with the Filipinos themselves? The minute we commence to deal with conditions and not with theories, we must see that if the interference of the United States is necessary to preserve peace and liberty in the islands, the rights of the United States in the islands must be recognized there and abroad. Before we make promises to the Filipinos, let us get better acquainted with the Malay race, and then further discuss their capacity for self-government.

As opposed to this vague theoretical and superficial plan of Democracy, let us consider the plan of the President.

You may read every utterance and examine every act of William McKinley in connection with the whole Spanish and Philippine War, and you will not find one inconsistent with the dictates of the most enlightened conscience. Every public order and proclamation relating to forms of government of President McKinley to the Filipinos guarantees to them protection in their inalienable rights to life, liberty, and the pursuit of happiness, and as full a measure of personal independence as is enjoyed by any American citizen.

In so far as it can be done without endangering the stability of the Government there, and therefore endangering the liberties of the inhabitants, the United States proposes and has always proposed to give the Filipinos themselves every opportunity to participate in the Government up to the limit of their capacity. In his letter of acceptance the President makes this very clear. With the

sovereignty of the United States established, the Filipino and the resident foreigner alike are guaranteed protection to life, liberty, and property, and equal justice under a law impartially and honestly administered. The strong hand of the United States, compelling justice, punishing the criminals and the oppressors, helping the poor, protecting life and property, and guaranteeing equality to all under the law, will bring to these beautiful islands the blessings of peace, prosperity, and happiness.

The constitutional right of the United States to do this is explicit, for its Constitution expressly states that "Congress shall have power to dispose of and make all needful rules and regulations respecting the territory belonging to the United States."

We may look at the question as we will, from the standpoint of national interest, or from the standpoint of national duty, we must keep our sovereignty in these islands, and our party stands for the retention of this sovereignty. It believes that our sovereignty will secure for natives and foreigners therein resident liberty and protection to life and property, while without that sovereignty the islands will be seized for a foreign nation or by a native oligarchy of a cruelty and corruption which would rival that before maintained by Spain. It believes that the retention of our sovereignty in these islands means the increase of their trade with the United States, and through the commercial foothold obtained in them the securing to the labor and capital of the United States their fair share of the enormous trade of the Empire of China, the greater part of which, although naturally belonging to us, now goes to other nations.

Our party is not unmindful of the fact that the recent magnificent rescue of our Minister and citizens in Peking by our troops was made possible by our foothold in the

Philippines, which enabled us to place American troops where American lives and interests were endangered. Was not that rescue and the circumstances which surrounded it significant of the great power as a factor in the world's progress which the Republic now possesses, and do they not suggest added reasons why this nation shall not in defiance of duty surrender a power which can so effectively be used for humanity's sake?

In looking at these people, we have no right to consider the leaders alone, but must think of the millions of poor and ignorant natives whose only experience with government has been with Spanish tyranny. We cannot abandon these natives to the dictatorship of those whose only school of government has been that of Spain.

How much consideration to the inherent rights of foreigners in Manila, whom we are bound by treaty obligations to protect, would these savage leaders give who only turned to war upon their liberators when they were discovered in a treacherous plot to massacre at night our soldiers and the foreigners in Manila?

If the Democratic Party is so solicitous that there shall not be any government without the full and free consent of the governed, I would ask them to agree to count the ballot of the black men in the South before they offer it to the semi-civilized savages of the Philippines.

And I say to you that if these semi-civilized peoples are to be dealt with justly, humanely, and tenderly, and lifted up into a better and nobler civilization, they will fare better with the party of Abraham Lincoln and William McKinley than with the party of Benjamin R. Tillman, of South Carolina.

My friends, the Republican Party in this campaign, as in the past, stands for national duty and for national progress and for national prosperity. It stands unitedly

behind the President in his foreign policy. It recognizes the masterful way in which he has dealt with great issues in the fear of God and in the highest interest of his fellow citizens. In this campaign our people are for the first time, in November, to register their decision upon the great principles at stake in the war in which our nation has been engaged. What our soldiers fought for in the Philippines our party fights for now, and the defeat of our arms on the field of battle could have been no more disastrous to those principles than our defeat at the polls in November. This is no time for apathy, and no time to discuss non-essentials. The President, who was reluctant to have this nation enter upon the Spanish War until he knew it was a righteous war, is now most aggressive in his demand that the responsibilities engendered by that war shall be met as bravely and honorably as was the war itself. But the very men who were the most impatient to get this nation into war are now the most impatient to have it back out.

This great Republic stands at the parting of the ways. It will not take the wrong one. It will not turn its back upon duty. It has come to this nation to enter broader fields and to raise to higher and happier life millions of people cast under its protection by an unavoidable war. It is true this nation is bearing great responsibilities; but it cannot avoid them. There is no responsibility so great as that involved in shunning a responsibility which it is our duty to meet.

As this nation has met its duties in the past, let us as individuals meet ours at the polls in November; and let us stand unitedly behind the principles and policies of the present Administration.

THE QUESTION OF THE HOUR: BUSINESS PROSPECTS

(Address before the Chicago Real Estate Board, October 23, 1914. Stenographically reported by G. Russel Leonard)

Mr. President, and Gentlemen of the Chicago Real Estate Board: —

We meet under unprecedented conditions, not only here, but all over the world. The problems which we have to confront are new problems. The factors which will determine business in the United States in the future are new factors. The old landmarks of business, by which to a certain extent we could guide ourselves and our plans, have been swept away. We are in the midst of what is almost a world-wide war. A large portion of the population of the world has reverted to barbarism.

Think of what one on the planet Mars would say, who for the last forty years had looked down upon the earth, who could not have seen the boundary lines — because they are not physical — between different peoples and different governments, and had seen that one people of Europe, that one mass of humanity, working, toiling, striving for forty years to build up wealth which would give them freedom, to a certain extent, from the necessity of manual toil and the opportunity to build up the sciences and the humane arts, and then at the same time have seen them with equal energy, under the theory that it was necessary for the preservation of this wealth, building up great engines of destruction which, at a given moment, they turned against accumulated wealth and against each other, reverting in a day not only to where they started forty

years before, but reverting back ten thousand years into primeval barbarism. [Applause.]

We confront, as I say, in a situation such as this, new conditions, new problems. One cannot make the conventional speech. The conventional phrases are no longer appropriate. If a man believes there is going to be prosperity, he must give a reason, and that is what I am going to do to the best of my ability — to give my reasons why I believe the United States is about to enter upon one of its greatest eras of prosperity.

In the first place, a natural reaction to prosperity was due in this country at the time of the outbreak of the European war. We had passed through, in 1913, one of the most drastic liquidations of credit in the financial history of the United States. The panic of 1893, with which those of us who are older were bitterly acquainted, was looked upon as one of the most elemental panics, and it resulted in a depression of business from which we did not begin to recover for four or five years. And yet, do you know that in the panic of 1893, the reduction in deposits — the deposits representing purchasing power — of all the national banks of the United States was only $422,000,000 as compared with the reduction in the deposits of all the national banks of the United States in 1913, of $426,000,000?

The reason why that unprecedented liquidation of deposit credits last year in the United States did not bring us into the same chaos of business, the same prostration of industry, that it did in 1893, was because of the improvement in banking conditions and the facility with which bankers have come to handle such crises as that. And so it was that, while in 1893, bank loans were contracted to the extent of $313,000,000, in 1913, instead of contracting loans to this enormous extent, — in other words, instead

of going out and demanding that the solvent business of the United States give up its life-blood to the banks, — the national banks actually increased their loans to the extent of $40,000,000. The bankers had learned how to protect the great superstructure of credit which is built up under the normal and ordinary operations of banking, and which constitutes the foundation for the greater part of the circulating medium of the country, for ninety-five per cent of our business is transacted by checks and drafts drawn against deposits in solvent banks. All economists, John Stuart Mill in particular, recognize the fact that these deposits are purchasing power; that credit is purchasing power; that in the effect upon purchases, under the law of supply and demand, the use of checks and drafts, or the use of any credits as a purchasing power, has just as much of an economic effect in fixing the range of prices as if the physical money of the Government were used.

And so, sixty days ago, what was it that the bankers of this city and the bankers of the United States confronted? They were confronted with a draft upon them for physical currency which was necessary in the banks as a foundation for the superstructure of these deposit credits in terms of which you do your business, and all do business in the United States; for, as I said before, of all business ninety-five per cent is transacted in this particular form of bank-credit currency. They perhaps violated the Sherman Anti-Trust Law. I hope not. I do not know. But they protected that superstructure of credit, not any more for themselves than for the business community, for industry and for commerce in the United States. They devised the clearing-house system. I have explained, I think, over at the Chamber of Commerce just how the certificate system protects the cash in a community and keeps it under the bank deposits. When a national bank in a central reserve

city is down to its reserve, in other words, has only twenty-five per cent under our present law of physical cash on hand, as against its deposits, for every one dollar in currency that is taken out of those reserves, in order to restore the relation between reserves and deposits, three dollars of credits must be canceled in the form of loans against four dollars of deposits. The bank calls its loans and they are paid by check, not by physical cash, as a rule. That is why in the panic of 1893 our business went down in chaos. The preservation of the existence of cash reserves in the banks was absolutely necessary to the preservation of the chance to have prosperity in the future. So we provided for the clearing-house certificate system.

To the minds of most of us — to my mind before I went through the panic of 1907 — the clearing-house certificate simply was a convenience to a bank in paying a debit at the clearing-house in an I O U instead of in currency, and to that extent only, protected the currency in the bank. But it had another effect. It prevented the buying of outside business, the competitive buying of outside business by one bank from another by shipping currency out of town.

Let me illustrate that. If a banker at Peoria had $100,000 on deposit with me and wanted the physical cash, I might argue with him all I pleased that here was an emergency which was national; that he had not deposited currency, but had deposited credits; that he should stand with me and endeavor to protect the community as well as the banking system from disaster and chaos and tell his depositors to wait, as I was telling my people to wait until credit conditions could be restored, and confidence could be restored, and the panic could be stopped. But he would not listen. He would go over, we will say, to one of my rivals in banking and say, "Mr. Dawes won't give me currency. I have $100,000 deposited in his bank. If you will give me

$50,000 in currency, I will transfer to you the whole deposit." The banker would take it and put in the Peoria banker's checks upon me for $100,000, and if we were not upon a clearing-house basis I would have to settle in the clearings for that check for $100,000 currency. But if we were on a clearing-house certificate basis and one of the other banks would take the deposit and pay the $50,000 in currency to the Peoria banker and the check of the Peorian for $100,000 would come in on me through the clearings, I would pay it in a clearing-house certificate instead of in cash and my rival would be out the $50,000 in currency. That is one way the clearing-house system protects the city from a drain in cash.

And it is exactly the same condition which the bankers of New York confronted. Their reserves were below the legal limit. They are now — this last week — about at the normal figure, so confidence is reviving. Unprecedented demands were made upon them for the payment of that which constituted the reserve foundation of the deposit credits of the New York banks, and if they had shipped gold, if they had paid their debts in gold instead of paying them in credits, as they chiefly do in the normal condition of things, the whole credit superstructure of the United States practically would have been in ruins. It was an emergency — it was war — and they did not ship gold. They said to their foreign creditors: "Wait. It is as important to you as it is to us that this great credit structure in the United States be preserved." And they were fighting your battle and my battle. They were fighting for the protection, for the preservation of purchasing power in the United States, and, thank Heaven, they have protected and preserved it, and it is the best reason to-day why we can hope for approaching prosperity in the United States; for when people need things, they now have the credit to

buy them with, and if people live, they need things and want them and will buy them. [Applause.]

They protected that superstructure of credits — the New York banks. And now they are paying those foreign debts by grain and other shipments. Conditions being more normal, they are beginning to pay them as best they can in gold. But they had to do exactly what we did here sixty days ago and in 1907 — suspend for a time cash payments.

I regard as a great calamity to the country what the bankers of Chicago looked upon at that time as something very creditable, that is, that they did not in 1893 go upon a clearing-house basis, because they happened to have a temporary relief of an inflow of physical cash from the World's Fair, and thus left practically without the protection of their example the banks of the entire West, and that tremendous and widespread contraction of deposits against loans went on in the West which brought the great depression and great loss and the great suffering of 1893 and the following years. The bankers of New York did not immediately pay out their cash which was demanded by Europe, but they are now paying their debts.

Now, in my judgment what we have recently gone through will result in an international clearing-house system some time in the future, by which, by paying the proper penalty as we do in the shape of seven per cent interest on our local clearing-house certificates, some way can be arranged for a nation to temporarily avoid the transfer and the transportation of physical gold, with all the dangers which are attendant to the credit system of the different countries when that shipment assumes an unusual volume.

But — this my first point and my longest point — purchasing power has been preserved in the United States.

There is an economic value to peace. If an industrious man owns a farm next to another man who fights, or who devotes himself to something other than caring for his farm, under economic laws and under divine laws the idleness of the latter is not allowed to penalize the man who works — who is at peace. I can have no intellectual sympathy with the economists who say that in this great destruction of wealth in the European world we must largely share, and must be greatly hurt. The Lord has put us here to work out our civilization under the laws of the survival of the fittest. The man who is peaceful and the man who is industrious and capable generally profits at the expense of those who, either through no fault of their own or through fault of their own, give up industry and turn their attention from farming and forging into fighting. There is no reason in sound political economy, so far as I am able to judge, for believing that this great disaster which we so deplore and which is crushing our brothers in Europe will result in economic disaster to us. For a nation is like the individual, subject to the same laws, and offered by his Creator the same inducements for sobriety and industry.

The first impetus that is coming to us in this country at this time, the first step in what I believe to be prosperity, now that we have the purchasing power protected in the United States which must be its basis, — for prosperity is only another name for activity in exchanges, — is the activity in exchanges which has started in connection with the food products of the country.

For the week ending October 8, as compared with the same week last year, there were forty-four cities which actually showed a gain in their bank clearings, which are the best measure of the evidence of activity in exchanges. There were sixty-six cities that showed a decrease, but forty-four showed an actual increase, and those cities were

largely situated in the Middle West. The agricultural Middle West is practically in a condition of prosperity to-day. Real estate — the great foundation of all value — is turning its dividends into the hands of the farmer. We have a great crop. We have high prices. Our wheat exports to-day are twenty-five per cent greater than they were a year ago.

There is a feeling of optimism in the Middle West. There is an ability to purchase on the part of the Middle West, just as there is on the part of the people in the East who yet lack confidence. But with that increasing activity of exchanges in the Middle West will come the purchases on the part of the Middle West from the East. When business activity starts, after such a great blow as the interjection of a foreign war, in its natural and peaceful and orderly conduct, the impetus comes first in those businesses which produce goods for almost immediate consumption; but it cannot come thus to agriculture — to the men who sell meat, to the men who sell fish, to the men who raise farm products of all kinds; it cannot come to them in this country, without being reflected before a great time in almost every line of business. They talk about our foreign trade. We ordinarily devote, in our forecasting of prosperity or adversity, almost one quarter of the time which we consume in giving our learned opinions to comment on the state of our foreign trade, and yet the entire foreign trade of the United States is only about one per cent of our total domestic and foreign trade, and I make this assertion that, so far as domestic prosperity is concerned, our foreign trade is practically a negligible quantity. [Applause.]

If our foreign trade falls off thirty-three per cent, — this may not be orthodox, but it is true, — if our foreign trade falls off thirty-three per cent, it represents only one third of one per cent of our total trade; and what fluctuation to

the extent of one third of one per cent can furnish those conditions which justify us in looking upon them as determining prosperity in the United States of America?

We are independent. We are commercially independent. We are industrially independent. We do not need the world as the world needs us. And this great war which has come upon Europe at this time will put an additional premium upon the prosperity of the United States, and eventually will not in any material way reduce or lessen it, in my judgment. [Applause.]

While I have made one or two business addresses during this fall, I really retired from speaking a year ago last March, because — not supposing that the public would have any interest in what I said — I made an *ex tempore* speech — as this is — before the Electrical Club, and some young man from one of the papers undertook to translate, in language which he thought better than mine, my real purposes [laughter], and among other things he stated that I said "real estate was a gamble." And he also said that my friends on the Board of Trade were guilty of this and that offense. And to my great surprise the young man made such epigrammatic and forceful statements — of absurdities — that in the papers the next morning they came out with double stars. [Laughter.]

In the real-estate department of our bank some of those to whom we had sold mortgages came in and said, "What is the matter with your president? Please take back these mortgages." The president of the Chicago Real Estate Board, in a very dignified and very able way, called attention to my errors. The Chicago Board of Trade appointed a committee [laughter], who wanted to know why it was, in view of our harmonious relations as bankers with them as individuals, that I had indulged in such reflections. I denied it until the reports of the speech began to come in

stereotyped in the country papers, and then I fled to California and made no more public speeches, and until about sixty days ago resolved that I never would. [Laughter.]

But I want to tell you, as I come back, gentlemen, your guest (therefore probably forgiven for that of which I was never guilty), that I never said it. [Applause.]

I have ten minutes left and that much ought to be saved out of any time in days like these to say something along patriotic lines. There is a patriotism, my friends, in a pride of peace, and I never felt prouder of my country than at this time, and I never felt prouder of our President, than I do at this time, who, despite the clamor of the demagogues, despite the political advantage which might have come to him and his party, did and has done for the past year that which he believed to be right, and preserved and protected us from a war with Mexico.

We are all of us — or should be to some extent — politicians, but we are first American citizens, and I for one, even upon the eve of a political conflict, would not withhold my praise from that great and anxious and quiet man who has rendered us this great service. [Applause.]

We have a great country. I like to tell — because I have found out that people like to hear it — I like to tell how I was once upon the flagship New York as the American fleet came from the battle of Santiago — up the Hudson River, after their long absence in that Santiago campaign. I had gone down as a guest with the Cabinet to those warvessels as they lay in their gray paint in the darkness of the early morning down the bay. As we later steamed up into the Hudson River, it seemed as if there were a million people upon the shore. All New York seemed to be out. The excursion boats were whistling; the artillery was firing salutes; upon the deck of every battleship the bands were

playing the national anthem; and on our deck I saw one young captain of marines — I shall never forget — the tears running down his face, walking up and down, saying, "This is my country! this is my country! this is my country!" And that same day at noon I saw old Secretary Wilson walking alone on the quarterdeck, and I said, "Mr. Secretary, they are serving luncheon below, and you had better go down." Secretary Wilson is a typical American citizen — from Iowa; a farmer — dignified — with the majesty of naturalness, without affectation; and he said to me, "I don't make it a rule to go where I am not asked." "But," I replied, "nobody will regret the oversight more than the officers of the ship; you should go down. You have had nothing to eat since four this morning." He said, "My boy, I will tell you" (I was younger then), "thirty-five years ago I came up this same river with my Scotch father and mother, in the steerage of a little ship, and now I come up this same river on this great warship, a member of the Cabinet of the President of the United States. I want to walk here and think about it. I can get along without lunch to-day." [Applause.]

Think of what this country has done for men like Wilson, for men like us, for any man who will do his duty, for any man who will do his work as best he can. It is the best country in the world. I shall never forget my sensations on my only trip to Europe. I had been over there for thirty days, traveling about one hundred and fifty miles a day and being put up in the worst rooms in the hotels, unable to speak any language except my own, buffeted, sick, sore, tired. They told me on the returning ship that last day out that if I stayed up until two in the morning I might see the Fire Island Lighthouse. And so on that dark, cold morning at two o'clock, I watched with three or four others (I do not think there were over three or four others among

the thousand on the ship that were so homesick as I), until off through the darkness I saw that little pin-prick of light lift itself up above the level of the sea. And when I saw it, and realized what was behind it, it seemed for the minute as if I would not trade three square miles of it for the whole continent of Europe! [Applause.]

And so, my friends, I end this speech in the words of another: —

"My country! May she be always right! But, right or wrong, my country!" [Prolonged applause.]

THE DANGERS OF THE FEDERAL RESERVE LAW

IN ITS PRESENT FORM AND HOW IT SHOULD BE AMENDED TO AVOID THEM

(Address before the Union League Club, of Chicago, Saturday, January 9, 1915)

Gentlemen: —

My subject was announced, as the chairman has said, "The Federal Reserve Bank: Its Benefits, Its Dangers, and Its Relation to the Future Business of the Country," but my address will be for the most part upon "The Dangers of the Federal Reserve Law in its Present Form, and how it should be amended to avoid them"; for what has happened in our community within the last two weeks in connection with criticism of the management of the local federal reserve bank is but the beginning of a controversy which, in time to come, will sweep over this country and which, if not foreseen by change in legislation, may (as twice before in our history) bring us into commercial chaos and financial ruin.

The ever live question in a republic is the relation of the centralization of power to the diffusion of power. Underneath every question of politics in a republic, underneath every question of economics in its public aspect, is that difference among our people between the policy of the concentration of power and the policy of the distribution of power among a large number of competing units. And if in the Federal Reserve Bank Act we find certain principles which have been overlooked in their public relation, which are certain to bring upon sensitive institutions (for a bank is a sensitive institution) this old, old controversy, it is time

to point out these principles; it is time to point out the dangers, before the credits of the banks have gone into general business, before the whole commercial edifice depends upon them as a foundation, and before the time when political attacks upon the Federal Reserve Law and the banks organized under it may result in a contraction of credits from which we suffered twice before, in the case of the First and Second Banks of the United States, and in the latter instance brought us into the chaos and the panic and ruin of 1837.

I wish to show why in my opinion the Federal Reserve Law, as it is at the present time upon our statute books, will inevitably, in the course of a few years, bring our people face to face with the controversy through which this country went in 1837, when Andrew Jackson, at the head of the radicals, supported by the independent state banks, attacked the United States Bank — a controversy which resulted in the destruction of the bank and of the commercial prosperity of the United States at that time.

The federal reserve banks are great credit-creating devices designed to use as a foundation of credits money of the United States Government, and money belonging to other banks already in use by these other banks as a foundation of existing credits. They were designed to relieve us from an inelasticity, not a dearth, of currency. Whatever may be their present impression, the people eventually will never consider the federal reserve banks as "banks for bankers," but as banks to be operated primarily, as well as secondarily, in the public interest and not solely in the interests of the national banks of the United States. This will result, not only from the fact that the coöperation of the United States Government is essential to make the federal reserve banks fully effective in times of emergency, but because to exist and still preserve a reasonable capacity

for public usefulness in times of emergency, the federal reserve banks must loan chiefly in the open market in competition with other banks. This results from the fact that we have ample currency in the United States except at times of special demand, when the crops are to be moved, or in times of financial panic. Under the Aldrich Bill, the immediate retirement of our $700,000,000 national bank note circulation, secured by government bonds, was provided for, which would have made a vacuum in existing circulation which the Central Reserve Association could fill by loans to member banks.

The Federal Reserve Law, however, makes no material reduction in the outstanding bond-secured national bank note circulation, since it provides for the retirement of not to exceed $20,000,000 per year. The federal reserve banks, therefore, will be forced into the open market for loans not only by the general demand of the people, but as a matter of business necessity. Over a year ago I pointed out that in normal business times banks will not pay a higher rate, as a rule, to borrow money from federal reserve banks than they now pay in open competition for the money of the depositing public; in other words, about three to four per cent for time money and two to three per cent for demand money. This is the reason why so few federal reserve notes have been thus far issued. If the federal reserve banks should loan their money to the member banks at these low rates in normal times, they would employ so much of their resources to pay their expenses and dividends as to impair their usefulness in times of emergency. The higher the rate which they receive upon their loans, the less will their credits have to be expanded in normal times and the greater will be their note-issuing capacity in times of emergency. They can make these open-market loans under one of the least discussed and yet one of the most important provi-

sions of the Federal Reserve Law, which authorizes the purchase of domestic bills of exchange. But the law should be amended to clearly define powers which, while now existing under the law, require in order to be exercised a change in the usual form in which credit is now granted.

This brings me, then, to my first point against the law in its present form, that it provides for a dual trusteeship and for the control of federal reserve banks by bankers whose institutions will be in competition with the federal reserve banks in the open loan market. And let me say here, in connection with this local controversy which has arisen, that it is not necessary for me, in this presence or in any other, to defend the competency or ability or the honesty of the two leading bankers of this city, now members of the board of directors of the federal reserve bank of the city of Chicago. [Applause.] As a member of the board of directors and executive committee of the People's Trust & Savings Bank of Chicago, and knowing his ability and competency, I happen to be the man who first suggested Mr. Earle M. Reynolds for its president, upon Mr. Bosworth's resignation, and I seem to have involved George M. Reynolds in some criticism by it. It is hardly worth while, before such an audience, to discuss such things as that, except as they are related to the great coming controversy in which the impossible principle of dual trusteeship provided for by the Federal Reserve Law will eventually involve all of the federal reserve banks. This first controversy has arisen upon apparently unessential things; but wait until all over this country these banks commence their operations and listen to the clamor of the demagogue, that the business of the federal reserve banks is being repressed in order to protect the banks of those men which are in competition with them — that they are not being used as agents of the public or in the public interest, but in the interests of the na-

tional banks of the United States which seek to use them and the money of the United States Government deposited in them. I only mention this local controversy, which is not worthy to be dignified by detailed discussion, as indicating what, in a few years, when the credits of the federal reserve banks are expanded, will, unless the law be amended, be an issue upon every political stump of the country in a great campaign, when the federal reserve banks, as did the Second Bank of the United States, will fight for their continued existence and for the maintenance of the foundations of general credit.

And now, I come to a very important part of this argument — the future relation of the United States Government, through the United States Treasury, to the federal reserve banks and the political and business consequences which will arise because of it. I want to make important in your minds the relation of the Secretary of the Treasury — the Government — to the federal reserve banks, because it is through that relationship chiefly that the banking system of the United States from now on will become a subject of political controversy unless the law is amended. The note-issuing capacity of the twelve federal reserve banks of the United States, based upon that provision of the law which allows them to issue notes with a 40 per cent gold reserve, after maintaining a 35 per cent lawful money reserve on their deposits, is $427,225,000. Bear in mind that these figures assume that the full 40 per cent gold reserve is maintained. Through the power of the Federal Reserve Board to suspend reserve requirements, the note-issuing capacity of these banks can be much increased, but I am now considering the banks as operating in normal times. Their expenses, — roughly estimated, but near enough, I think, for the purpose of argument, — dividend requirements, and surplus requirements will be about

$4,500,000 per year. To provide this sum they can loan in the open market $100,000,000 at 4½ per cent, or to the member banks $180,000,000 at, say, 2½ per cent. In the first case they would have left a note-issuing capacity of $327,000,000, and in the second case of $247,000,000.

As the deposits of the federal reserve banks increase under the provisions of the law requiring reserve deposits from national banks, these amounts will be somewhat increased. The net deposits of the national banks of the United States — to protect against the fluctuations in which is the chief function of these banks — are $7,291,342,479. In my judgment this approximate amount of notes would be inadequate to care for the situation in times of emergency, and the banks, to perform their functions, must encroach upon the 40 per cent gold reserve or rely upon the assistance of the government deposits, made by the Secretary of the Treasury. We must remember that the net deposits of the state banks of the United States aggregate a sum greater than those of the national banks of the United States — that, in times of emergency, the inability of the state banks to meet the currency situation will greatly stimulate the demands upon the national banks. Even if the Secretary of the Treasury has not deposited government money with the federal reserve banks before, he certainly would do it at any time that the federal reserve banks would otherwise have to encroach upon their 40 per cent gold reserve in issuing federal reserve notes.

Do you realize that when the Secretary of the Treasury deposits the general fund holdings of the United States Treasury, as he is authorized in his unlimited discretion to do, in federal reserve banks, that he will have more money on deposit than all the national banks of the United States put together have on deposit with them at the present time? The deposits of the federal reserve banks now

aggregate $249,786,000. The general fund holdings of the United States Treasury, which can be deposited and withdrawn by the Secretary of the Treasury at his sole and unlimited discretion, amount to $255,722,000. If he deposits that money, $99,700,000 of which is in gold, and these banks expand their business, and there should be put out by these banks, on the basis of these government deposits, several hundred millions of notes, tell me, after this credit has gone into circulation, who will be the great power in connection with the federal reserve banks — the Federal Reserve Board or the Secretary of the Treasury? Supposing that in any state bank, with $40,000,000 of deposits, one depositor controlled $20,000,000 of them, what would be his influence upon any business engagements which the bank might consider?

The Secretary of the Treasury is a political officeholder, the representative of a political administration. If, for the third time, the money of the United States Government goes into the business of the country through the federal reserve banks and the independent subtreasury system, which grew out of the last disastrous experience of this kind, is abolished, the position of power of the Secretary of the Treasury will be that exercised by R. B. Taney, the Secretary of the Treasury under Andrew Jackson.

Before we consider what he might or might not do, let us consider for a moment the situation which, whenever the United States deposits have gone into business, he is not only likely but certain to confront. A great clamor will have arisen in the country against the control of the federal reserve banks by competing bankers. A claim will be made, if the money of the federal reserve banks has been loaned to member banks, that if it had been loaned to the public general interest rates would be lower. If, on the other hand, these deposits had been loaned to the public by

the federal reserve banks, a great clamor will be heard about the tremendous power exercised by those dominating the banks, and opposition will arise from the independent banks, both state and national, suffering from competition in the loan market from funds taken from national banks without interest and from government deposits. A clamor will come from those unable to secure credit from the federal reserve banks, which would accommodate in normal times large institutions as distinguished from small institutions because the credit emissions of large institutions are better than those of small institutions, as a rule. A clamor will arise that these federal reserve banks, possessing great power over credits and business conditions, are dictating terms under which general business can be transacted.

Imagine the position of an Administration under such a situation. If it did not yield to it, it would go out of power and another would be put into power which would yield to it. Let us see what R. B. Taney said and let us see what he did. And if anybody sees anything inappropriate in this attitude taken by Taney, who afterwards became Chief Justice of the United States, as applied to the situation in which this country will be after the expansion of the credits of the federal reserve banks, let him say so: I am reading from the Financial Report of the Secretary of the Treasury of the United States for 1833: —

> It is a fixed principle of our political institutions to guard against the unnecessary accumulations of power over persons or property in any hands, and no hands are less worthy to be trusted with it than those of a money corporation. In the selection, therefore, of the state banks as the fiscal agents of the Government —

This is when he commenced to withdraw the government deposits, because of the political prejudice in this country against the power which must necessarily attach to semi-

public banks if they are to perform the function for which they were created —

> In the selection, therefore, of the state banks [that is, as distinguished from the Second Bank of the United States] as the fiscal agents of the Government, no disadvantages appear to have been incurred on the score of safety or convenience, or the general interests of the country, while much that is valuable will be gained by the change. I am, however, well aware of the vast power of the Bank of the United States and of its ability to bring distress and suffering on the country. . . . But I have not supposed that the course of the Government ought to be regulated by the fear of the power of the bank. If such a motive could be allowed to influence the legislation of Congress, or the action of the Executive Department of the Government, there is an end to the sovereignty of the people and the liberties of the country are at once surrendered at the feet of a moneyed corporation. They may now demand the possession of the public money, or the renewal of the charter; and if these objects are yielded to them from apprehensions of their power, or from the suffering which rapid curtailments on their part are inflicting on the community, what may they not next require? Will submission render such a corporation more forbearing in its course? What law may it not hereafter demand that it will not, if it pleases, be able to enforce by the same means?

In that year, 1833, the Government of the United States had on deposit with the Second Bank of the United States less in proportion to the other deposits of the bank than the Secretary of the Treasury is now authorized to deposit in the federal reserve banks as compared with their present deposits. The Government then had on deposit with the Second Bank of the United States $6,512,000 while the private deposits of the bank were $9,868,000 — about fifty per cent more than the United States deposits. Three years later, the Secretary of the Treasury had completed his part of the war against the Second Bank of the United States. In March, 1836, the United States deposits were but $324,000, and the private deposits had shrunk from $9,868,000

to $3,390,000. The country was on its way to financial ruin. The great panic of 1837 which followed was brought about not alone by the war of Andrew Jackson and the radicals of the country, but by the war of the independent state banks which resented the competition of government money used by the Second Bank of the United States. I am not here to criticize Andrew Jackson. As a result of his war, while panic and disaster ensued for a time, there was laid the foundation of our great independent competing banking system composed of 27,000 units which have aided in building up and developing the richest and most powerful business nation of the world. As a result of that war were laid the foundations of the independent subtreasury system, through which Uncle Sam, having had trouble in getting his money out of the banks where he had deposited it, from that time on kept the bulk of it in his own pocket. He had so much in his pocket in 1907 that in that panic he could spare enough to the banks of the country to tide them over. It is far from my intention to criticize Andrew Jackson or the result of his war, but I do say that it is nothing short of folly for us to reëstablish by law the conditions which brought about the Jacksonian war and the prostration of business. It is not a popular thing to criticize a law from which everybody hopes good, but I say that the time to correct this law is before the credits of the federal reserve banks have been expanded.

Two great amendments, in addition to the one regarding open market operations, must be made to this law to remove its menace to our future prosperity. The law must be amended to take the control of the federal reserve banks from their competitors. I realize that the law has compelled the national banks to buy the stock of the federal reserve banks — that they are the owners of them — that ordinarily control should not be divorced from ownership — that

it seems unjust from a banking standpoint that the bankers should not control them; but this is a case where the interests and attitude of the public are involved, and the banks in time will suffer from the retention of control more than from its elimination. I say this without any hesitation; I give warning that the people of this country will demand that these banks be operated independently, and not by trustees already charged with the duties of trusteeship over competing corporations. I am here to say that this principle of dual trusteeship established by this law is wrong, not only as a principle, but as a policy. Amend this law so as to keep the banks under the control of business men and not politicians, but take that control away from competitors. If you do not, you have laid the foundations of a political controversy in which the Andrew Jackson of the future, voicing the demand of the people, will again lay our commercial edifice in ruins. This can be avoided; and the stand of true patriotism is to make an effort to avoid it rather than to wait in an unreal and fancied security until danger has become disaster. There was a day one spring when Johnstown, Pennsylvania, was at peace and quiet in the feeling of security and the enjoyment of prosperity. But was it out of danger, because the danger was not realized? There ought to be some man in the Senate of the United States, some man, somewhere, who, in connection with this great danger which threatens the United States, could do as the man did who rode down before the flood from that crumbling Johnstown reservoir, and cried to that peaceful people the warning of the disaster which was coming. If the federal reserve banks are built upon the crumbling foundation of false principles, make no mistake, their reservoir of credits will break in time, and our prosperity will be submerged.

The second great amendment which must be made to

the Federal Reserve Law is the curtailment of the immense power over government deposits in the banks which is now left to the sole and unlimited discretion of the Secretary of the Treasury. In the first place, he should not be permitted to place any of the general fund holdings of the Treasury in the federal reserve banks, to become a foundation of banking credits in normal times. He should not be allowed to deposit the general fund holdings of the Treasury in the federal reserve banks until the federal reserve banks have reached the limit of their possible expansion without government deposits, and then under such restrictions as would compel the banks to return the money after the crisis was past. The right to deposit and draw United States money in the federal reserve banks should not be left to one man's discretion, but should be subjected to proper checks against the possible wrongful use of such vast power. But some one may say that our protection is the Federal Reserve Board. Is that permanent? Let the Federal Reserve Board be conservative as it is now, how long, against the pressure which will come from the people of the United States, can the Federal Reserve Board stand? We must make up our minds that these great credit-creating devices are going to be used, and the power of any one Administration or any one Secretary of the Treasury to deposit and draw at his unlimited will and discretion what would amount at this time to one half of the total assets of the federal reserve banks must be prevented by amendment of the law. I care not who the man is, — I have confidence in Secretary McAdoo, — but that power should not be his, or that of any other one man. This law must for the first time be discussed with relation to the politics of the country. For the most part, the law is conformable to sound economics. It is capable of being made of great usefulness to our people, but in order to be so, it must be

amended before your business and my business becomes adjusted to and dependent upon the existence of a large volume of credits, which, when these wrong principles involved in the law are justly attacked, and contraction sets in, will overwhelm us in the ruin which our forefathers went through seventy-eight years ago. The question of whether political appointees are put in charge of the bank, injurious as that would be, is subsidiary: the most important question is whether we can correct this law and prevent an attack upon these institutions upon whose proper handling of credits and currency our prosperity of the future depends. I thank you. [Applause.]

ARGUMENT ON THE STEVENS MAXIMUM RATE BILL

Before the Committee on Railroads of the Nebraska State Senate, February 25, 1891

Gentlemen of the Committee: —

The question of local freight rates is the most important one, in my judgment, which is before the Senate for consideration. In common with other citizens of Nebraska, I have taken an interest in this matter, and have had occasion to make some investigations, the results of which have a bearing upon the questions regarding the reasonableness of our present local rates. The argument of the railway companies against the reduction of local rates before this committee, and before the State Board of Transportation, have been chiefly to the effect that the annual net earnings of the roads pay only a low rate of interest on actual cost, and accordingly a reduction of local rates at present would work a great injustice to the companies. Elaborate and tabulated statements have been presented from time to time in support of this proposition, notably in response to a resolution of the State Board of Transportation calling for statistics as to cost and earnings of roads, passed May 12, 1890. These statistics seem to have satisfied the State Board of Transportation that our present local rates are low enough, and in their last Report (page 122) the Board says: —

> It is obvious that these figures, considered from the standpoint of the reasonableness of rates between shipper and carrier, as declared by the Board in the preamble to the resolutions directing this investigation, do not afford a basis for a reduction of the present maximum rates.

. This finding, which I will now consider for a few minutes, is a very remarkable one. It is based upon the statements of cost of road and of annual earnings, averaged for three years, of the Burlington & Missouri River Railway in Nebraska, which statement the Board in its Report gives in detail. In explanation, the Board says (page 119): —

> The Burlington system of lines in Nebraska extend over so wide a stretch of territory, reaching into those sections supplying a very small traffic as well as into sections supplying a very considerable traffic, that a tariff of rates adjusted for its lines in Nebraska, on the basis declared just in the resolutions of the Board, would answer fully as well for all other lines in the State.

After the detailed statement of cost and income, the Board says (page 121): —

> The average rate of income from all lines upon the cost of all lines (deducting from the total cost the *pro-rata* cost of the extension of the Grand Island and Wyoming line from Alliance to the Northwest) is 5 9/100 per cent per annum (5.09).

The average reader might possibly be convinced of the correctness of the holdings of the Board, but a very few statements which have been made by railroad officials themselves will show the great injustice of their conclusions as based upon these quoted figures. As said before, the net income forming this 5.09 per cent is largely averaged for the three years ending December 31, 1889. Why is it averaged for three years? Simply because the year of the great strike on the Chicago, Burlington & Quincy Railway is thus included, and this reduces the average rate of earnings far below what they are at present and always have been under ordinary conditions. To prove this I append a statement made by Mr. G. W. Holdredge before this committee, showing the earnings of the Burlington & Missouri River Railway, west of the Missouri River, for the years 1883 to 1890 inclusive. The unfairness of our State Board of Transpor-

tation, in accepting as a basis for their finding the earnings averaged over 1887, 1888, and 1889, will at once be seen: —

Year	*Net earnings of the B. & M. Ry. west of the Missouri River*
1883	$4,237,890.11
1884	4,364,780.49
1885	4,778,212.27
1886	4,693,614.16
1887	4,319,066.97
1888 (year of engineers' strike)	1,794,341.64
1889	3,333,489.03
1890	3,397,646.21

In addition to this error, the State Board of Transportation fails to take into account the proportion of bonded indebtedness to the cost of the road, and the relation of the interest paid on bonds to the earnings derived from the proceeds of the sale of bonds. This latter error aids the railway companies in successfully obscuring the true issues at stake. I will endeavor to show that the railroad companies and the State Board of Transportation, by comparing only the cost of the road and the earnings, and assuming that the result settles the matter of a reduction of rates, ignore the very gist of the question. According to the statements of the railway officials, the proportion of local to through traffic is about ten per cent, and it will not be contended by any one conversant with the finances of the Burlington & Missouri River Railway in Nebraska that a reduction such as would be made by the Stevens Bill, should it become a law, would result in an inability of the road to meet the bond interest.

The reduction in local rates affects the stockholder and not the bondholder, and the questions in the matter of local rates reduction become these: —

What is the cost of the stock which will be affected by the reduction of local rates, and what is the ratio of stock earnings to stock cost? Will a reduction in local rates, such as asked for in the Stevens Bill, reduce these earnings to an unreasonably low amount?

This, and this alone, is the true basis for investigation and argument. To include covertly the bondholders and the stockholders in one class, as virtually has been done by the railroad officials and the State Board of Transportation, in this argument, is to beg the question.

I will now discuss this matter, taking the Burlington & Missouri River Railway in Nebraska for the purpose of making the test, since it is the road selected from all the others for this purpose by the State Board of Transportation in its last annual report. I will endeavor to show that the road of the Burlington & Missouri River Railway in Nebraska has cost the stockholders practically nothing. In other words, that the road has been built and equipped from the proceeds of the sale of first mortgage bonds, and the proceeds arising from the sales of the donated land grant, and municipal and county bonds voted to the road by Nebraska citizens. I will then consider what profits are annually accruing on the stock issued on this road.

I now desire to show, as a step toward a conclusion, that during and from 1886 to the present year the Chicago, Burlington & Quincy Railroad Company has been building its new lines in Nebraska, Colorado, Wyoming, and Kansas from the proceeds of the sale of first mortgage bonds. Accordingly, I append a statement which I have collated from the last four annual reports of the board of directors of the Chicago, Burlington & Quincy Railroad Company to the stockholders: —

Year	*Miles of new lines built*	*Amount paid for construction and equipment*	*Bonds issued during year, and sold*	*Average rate of interest on bonds (per cent)*
1886.....	389.988	$8,168,314.93	$2,870,200.00	4.9
1887.....	657.350	15,131,542.95	12,000,000.00	4
1888.....	223.894	5,293,040.74	8,901,280.84	4.2
1889.....	223.540	3,925,746.58	8,412,000.00	5
Totals.....	1,494.772	$32,518,645.20	$32,183,480.84	

The premiums derived from the sale of these bonds during these four years, together with a small sum resulting from discount on bonds purchased for sinking funds, amounting in all to $856,908, have, in the above statement, been subtracted from the cost of construction and equipment instead of being added in the bond column to the par value of the bonds — the result, so far as the relation of the cost of construction and equipment to income derived from the sale of bonds, being the same. However, making this change, we have the actual cost of construction and equipment, $33,375,553.20, and the income derived from the sale of bonds very approximately, $33,040,388.84. The only conclusion which can be drawn from these figures is that the Chicago, Burlington & Quincy Railway, since and during 1886, has been building and equipping its new lines, in this and adjoining States, from the proceeds of the sale of bonds, drawing on an average a little over four per cent per annum. Taking the amount expended in the construction and equipment of new road in these last four years, which is $33,375,553.20, and dividing it by the number of miles of road constructed, which is 1,494.-772, we have the amount expended in these years, per mile of new road, for construction and equipment (including telegraph lines), which is $22,325. When we remember that of this 1,494.772 miles of new road over 1100 miles have been on "main lines," costing more in proportion, as

is well known, than branch lines, we are led to believe that the value of Nebraska railways per mile, once assumed by Mr. Holdredge at $25,000, is certainly excessively high.

Having shown that the new lines in this State in 1886 and thereafter have been built from the proceeds of first mortgage bonds, let us again consider the land grant, and ascertain, if possible, the actual amount of cash the stockholders of this railroad have invested for road in this State built prior to 1886. The road operated in Nebraska in 1887 was 1781.77 miles. Subtracting from that sum the number of miles built in Nebraska in 1886, which is 370.69, we have as the length of the road in Nebraska just prior to 1886, 1411 miles. In the printed report of the Board of Transportation for 1888 (page 414), the amount realized from the land grant of the Burlington & Missouri River Railway in Nebraska, above expenses and taxes, is given as $7,268,580.78, and the amount at present unpaid on outstanding contracts is $1,183,633.23, with 76,121.25 acres still unsold. Letting the acres unsold be an offset against the expense of selling them and of collecting the $1,183,-622.23, still outstanding, we will take $8,452,203.01 as a low estimate of the value of the land grants of the United States and the State of Nebraska. It is my belief that in this total the proceeds of the thirty thousand acres received with the Omaha & Southwestern Railway is not figured, but being unable to ascertain as to this I give the railroad company the benefit of the doubt.

Dividing this $8,452,203.01, accruing to the stockholders from the land grant, by the 1411.77 miles of road, we see that for the road in Nebraska, built prior to 1886, the stockholders must have received the sum of $5990 per mile from the land grant.

The state records show that there have been voted municipal and county bonds to aid in the construction of the Burlington & Missouri River Railway in Nebraska, by Nebraska citizens, the sum of $2,372,800.

Dividing this sum on the 1411.77 miles of road in the State December 31, 1885, we see that for the road in Nebraska, built prior to 1886, the stockholders have received the sum of $1680 per mile.

The large issue of consolidated bonds, and bonds secured by mortgage covering roads in other States as well as in Nebraska, make it extremely difficult to determine the exact amount of bonds per mile outstanding on December 31, 1885.

The written report of the Chicago, Burlington & Quincy Railway to the Board of Transportation for the year ending June 30, 1888, gives the total amount of bonds outstanding on that part of the road in Nebraska as $40,515,830.82. The interest paid on these bonds is given as $2,064,729.58, or 5.09 per cent per annum. The length of road in this State at the time said statement was made, as given in the same report, is 2120 miles. This gives a bonded indebtedness per mile of $19,111.54.

By the table given before, in which I compare the proceeds of bonds sold with cost of construction and equipment, I proved that since December 31, 1885, the western road of the Chicago, Burlington & Quincy Railway, chiefly in Nebraska, had been built at a cost of $22,325 per mile, and that for that period the bond issue amounted to $32,183,480.84, which pro-rates at $21,541 per mile. From December 31, 1885, to June 30, 1888, according to the reports of the officers, 708 miles of new road were built (to wit: the difference between 2120 miles and 1411.77 miles). To get the bonded indebtedness per mile on De-

cember 31, 1885, all that is necessary is to multiply the $21,541 (the sum at which the new road was bonded) by the 708 miles, which gives $15,251,028, and subtracting this sum from $40,515,830.82 we have the total bonded indebtedness of the road on December 31, 1885, as near as can be calculated by outsiders. This result is $25,264,802.82.

Then pro-rating this sum on the 1411.77 miles of road in this State at that time, we see that the bonded indebtedness per mile on December 31, 1885, was $17,893.

I regard this result of $17,893 as a fair estimate of the bonded indebtedness outstanding December 31, 1885, on the road in this State. This estimate is made from statistics given by the officers of the road to our State Board of Transportation. That it is a conservative estimate is indicated by the fact that on December 31, 1878, before the consolidation of the Burlington & Missouri River Railway in Nebraska with the Chicago, Burlington & Quincy Railway, when it is possible, of course, to exactly determine the bonded indebtedness per mile, the bonded indebtedness on the 415 miles of road in Nebraska amounted to $10,933,300, or $26,345 per mile. The fact that in 1880 the Chicago, Burlington & Quincy Railway Company, by consolidation, acquired with the 832 miles of Burlington & Missouri River Railway a bonded indebtedness of $18,701,200, or $22,477 per mile, is a further indication of the improbability that the bonded indebtedness to be charged the Burlington & Missouri River Railway in Nebraska on December 31, 1885, is less than $17,893.

First — I have now shown that the stockholders paid nothing on stock to build the 1,494.772 miles of road built during the period from December 31, 1885, to December 31, 1889, but that said road was built from the proceeds of sale of first mortgage bonds at a cost (including equipment and telegraph lines) of $22,325 per mile.

Second — I have shown that for the 1411.77 miles of road in the State December 31, 1885, the stockholders have received per mile: —

(*a*) From land grants	$5,990
(*b*) From municipal and county bonds	1,680
(*c*) From first mortgage bonds	17,893
Total	$25,563

Now, let us consider the cost of construction and betterments of the Burlington & Missouri River Railway in Nebraska as given in its statements to the State Board of Transportation. (See Report of State Board of Transportation for 1890, pages 119 to 122.) In these figures, which we give below, a portion at least of the equipment is included, as is also the cost of the shops at Plattsmouth, Lincoln, and Hastings. Whether all the other figures include cost of equipment I cannot say. Our argument will be found complete whether they do or not.

Burlington & Missouri River Railway in Nebraska

	Length of road	*Cost of construction and betterments*
Pacific Junction to Kearney, Kenesaw to Colorado state line, via Holdredge and McCook, main line (Includes equipment and shops at Plattsmouth, Lincoln and Hastings.)	391.61	$14,896,535.50
Nemaha City, Lincoln, Grand Island, to South Dakota state line	525.40	9,048,690.97
Kansas state line, via Lincoln, to Columbus	180.60	5,610,100.82
Salem, via Nemaha City, Tecumseh, Beatrice, to Colorado state line	468.11	7,528,175.09
Amboy, via Hastings, to Erickson	241.68	4,662,191.74
Other divisions	276.74	4,788,688.77
Omaha to Schuyler, via Ashland	115.21	3,475,880.77
Totals	2199.35	$50,010,263.66

Dividing the cost of construction and betterments by the mileage, 2199.35, we have as cost of the construction and betterments (and a large portion at least of the equipment) $22,742 per mile, according to railroad authority.

Now, since the cost of the road since December 31, 1885, including equipment, has been $22,325 per mile, which was paid for from bond proceeds, and as I have shown that the roads have received $25,563 per mile for the road built prior to December 31, 1885, and have also shown that in their own statement to the Board of Transportation the officers of the Burlington & Missouri River Railway in Nebraska report the total cost of the Burlington & Missouri River Railway in Nebraska, including betterments and a portion of equipment, as only $22,742 per mile, I maintain that it is proved that the investment of stockholders in the Burlington & Missouri River Railway in this State is represented only by the value of the land grant and municipal bonds. In other words, the stockholders are earning their dividends on the proceeds of Nebraska land donated them by the Government, and Nebraska county and city bonds donated them by the citizens.

It will be noticed that there is a leeway in the above figures of nearly $3000 per mile of road prior to December 31, 1885, which could be allowed the railroad company and still not impair the conclusion that the only investment of stockholders is represented by county and municipal bonds, and land grants. This certainly will provide for any equipment not included in the above figures, or other inaccuracies.

To clinch the argument, let us show the truth of this conclusion in another way: —

Cost of construction, betterments, and portion of equipment as given by officers of the Burlington & Missouri River Railway in Nebraska (see table given before)	$50,010,263.66	
The Burlington & Missouri River Railway in Nebraska has received as follows: —		
Amount of first mortgage bonds	40,515,830.82	
Value of land grant	8,452,203.01	
Value of municipal and county bonds	2,372,800.00	
Total	$51,340,833.83	$51,340,833.83

These general figures prove the correctness of my preceding argument. The road has been built and equipped from first mortgage bonds, land grants, and municipal and county bonds. There is a leeway here of $1,330,570.17 in favor of the correctness of our conclusions.

Profit to Stockholders

(See Fourth Annual Report of the State Board of Transportation, page 145, year ending June 30, 1890.)

Proportion of earnings to Nebraska, Chicago, Burlington & Quincy Railway	$7,944,142.00
Proportion of expenses to Nebraska, Chicago, Burlington & Quincy Railway	4,515,645.00
Net earnings	$3,428,497.00
Number of miles in Nebraska (same Report, page 136)	2,213.37
Net earnings per mile	$1,549.25
Interest on $19,111.24 bonds per mile, at 5.09 per cent	972.75
Net profits to stockholders per mile	$576.50

The amount which they earn on money derived from donations is therefore $576.50 (very approximately) for the year 1890.

Let us take the year 1887, which is nearer an average year than 1890, considering the years 1883 to 1890 inclusive.

(Report of the State Board of Transportation for the year ending June 30, 1887, page 227)

Proportion of earnings for Nebraska	$7,944,814.92
Proportion of expenses (page 229)	3,811,400.77
Net earnings for Nebraska	$4,135,414.15
Mileage exclusive of sidings (same Report, page 233 note)	1,781.77
Average net earnings per mile	$2,314.20
Interest on $19,111.24 bonds (estimated) at 5.09 per cent.	972.75
Net profits (approximately) to stockholders, per mile	$1,341.45

For this year the stockholders earned on the donations, which then amounted to $6,075 per mile (10,825,003.01 prorated on 1,781.77 miles) the sum of $1,341.45 (very approximately), or 22 per cent net.

Perhaps earnings like these would not be considered unreasonable if they were made on money furnished by the stockholders. Perhaps they would. But I do not think there can be much question that the State is doing no one an injustice if the present reasonable maximum rate bill presented by Senator Stevens (S. F. 85) is passed, when we remember that these earnings are made upon a principal sum donated by the people. It may be urged that this stock has passed into the hands of innocent holders. The answer to this is that the rights of Nebraska citizens, also innocent, are at stake. The men whose business makes dividends are entitled to consideration at your hands as well as those men whose investments take dividends. The holders of this stock took it subject to the equities existing between the State and the corporation.

We hear much in reference to Iowa from opponents of this bill, as to its population, its business, its square mileage, etc. The arguments proceed upon the assumption that such statistics form the basis of rate-making. This is not the case. Dakota is about as far behind Nebraska as Nebraska is behind Iowa, yet, taken as a whole, the local

rates of Dakota are lower than the local rates of Nebraska. Applying these abstract arguments made in reference to Iowa and Nebraska to the case of Nebraska and Dakota, we see how little weight should be given them. If these arguments are worthy of any consideration whatever, certainly Nebraska's rates should be materially lower than the local rates of Dakota.

NEBRASKA RAILROAD RATES

(Argument before the Board of Transportation of Nebraska, August 13, 1891. Stenographically reported by B. E. Betts)

[The Board of Transportation of Nebraska met at the State Capitol on the afternoon of August 13, 1891, to gain information upon the local rates of Nebraska, Mr. Thomas H. Benton, Auditor of State, being chairman of the meeting. After some preliminary business had been transacted by the Board, Mr. Dawes said:]

I appear before you to-day in response to the general invitation requesting any one, believing that the local rates charged by the railroads in this State are too high, to appear and state the reasons for his belief. I am one of those citizens of Nebraska who believe that the present schedule of local rates in this State is operating to prevent the internal development of the resources of the State, and to the great injury of the business which the interior portion of the State is now endeavoring to transact in the home markets of the State.

[Mr. Deweese, attorney of the Burlington & Missouri River Railway, here interposed and quoted law relative to the power of the Board to hear argument not given under oath if after hearing such argument they intend to make a finding of facts as to rates. Mr. Hawley, attorney for the Frémont, Elkhorn & Missouri Valley Railway, and Mr. Kelley, attorney for the Union Pacific Railway, also spoke upon this question. After consultation the Board notified Mr. Dawes to proceed with his argument.]

In the Annual Report for 1890 of the State Board of Transportation, in its report on maximum freight rates, I find it stated: —

The Burlington system of lines in Nebraska extend over so wide a stretch of territory, reaching into those sections supplying a very small traffic, as well as into sections supplying a very considerable traffic, that a tariff of rates adjusted for its lines in Nebraska, on the basis declared just in the resolution of the Board, would answer fully as well for all other lines in the State.

I think that this statement of the State Board of Transportation is correct, and therefore, in pursuing the investigations which I have made, I have taken the Chicago Burlington & Quincy Railroad rates (which are practically the same, so far as the local rates and their relation to the through rates throughout the State are concerned, as those of other roads) and will make my argument upon the tariff sheets of that road as a basis, the local distance tariff sheet and the through tariff schedules.

Now, I state to the Board as a matter of opinion, for which I will show the reasons, that the rates of the Chicago, Burlington & Quincy Railroad are made for two purposes: *First* — To foster and encourage such internal industries in the State as produce commodities for a distant market upon which they can get the long haul, at the highest tariff which the traffic will bear. *Second* — To prohibit or render impossible such internal industries in the State as have a tendency to produce commodities for home markets, which the railroads are now hauling in from outside markets at high rates for the long haul.

I will endeavor to show you that the local rates of this State which have not been changed since November 1, 1887, are not rates made to do business upon, but they are rates made by which to prevent business. In all through tariff rates made to the eastern portions of the State of Nebraska, and in the tariff made by railroads all over the United States, the different classes of freight bear a regular proportion to each other, the second-class rate being such a

proportion of the first-class rate, and third-, fourth-, and fifth-class rates also bearing a uniform proportion to the first-class rate. Now, I shall show you that, under the local schedule of the Chicago, Burlington & Quincy Railroad Company, they proceed to take the classes of freight, under which I shall show you the most of the commodities of this State are shipped, and arbitrarily raise these classes. In other words, I shall show you, not only a general discrimination against the internal development of Nebraska on all classes of freight by means of high local rates, but I shall show you a discrimination against those classes of freight under the local distance tariff in Nebraska in which the people of this State as producers are most interested.

In order that I may answer this argument, that because the State of Nebraska is not interested in local rates to the extent that it is in through rates, and that, therefore, it does not make any difference to the people of this State what rates we have for our products from one point in the State to another point in the State, provided we have a living through rate, — an argument which so many of these railroad gentlemen have urged in the past to the effect that we are interested only in through rates, — I wish to read you a list of articles which I have collated from the western classification, the majority of which the interior portion of this State is fitted to produce as against outside competition. The interior portion of the State of Nebraska is qualified to produce these articles, which I shall read, for the home markets of the eastern part of the State as against Chicago, as against Kansas City, and as against St. Louis, if citizens of interior Nebraska had the rates to ship them into the home markets of the State. And in reading this long list I shall answer the objection that the people of this State are not interested in the local rates except upon the articles shipped under commodity rates.

I will now read a list of commodities shipped under fourth and fifth classes which could be produced for home markets by interior Nebraska with fair local rates, but which are now discriminated against by local rates to an extent practically prohibitive.

WESTERN CLASSIFICATION — EXHIBIT "A"

Fourth Class

Flax meal
Flour paste in barrels
Animal food in boxes
Glucose, grape and glucose syrup
Glucose refuse and sugarmeal
Glue stock in bbls. or hhds.
Grease in barrels
Handles (wood) N.O.S. crated
Harness oil soap
Harrow teeth in barrels
Fire brick
Fire tile
Dried meats
Dried vegetables
Earthenware chimneys in sections
Egg box stuff in bundles or racks
Egg carrier filling, K.D.
Felt paper
Felt pipe covering
Straw paper for carpet lining
Catsup in tin cans boxed
Sidewalk tile cement
Barley sprouted
Corn malt
Condensed milk
Coops, returned
Cracklings, in packages
Paper crates
Crockery in crates, casks, or hhd.
Artificial stone
Axle grease in boxes
Beans in barrels
Dried beef in crates
Cabbage in crates
Potatoes in sacks
Turnips in sacks
Castor beans
Hogs dressed
Paint
Pickled beef
Pickled pigs' feet
Plaster, N.O.S.
Potatoes, N.O.S.
Tile roofing
Potted meat
Dried sausage
Glass scrap
Lead scrap
Sewer pipe
Leather shavings
Straw wrapping paper
Wall finish, N.O.S.
Fertilizers
Fuel compositions
Grass seed
Lap boards
Blue grass seed
Butter hermetically sealed
Butter ladles
Candles
Cracker meal
Peas
Pickled bladders in barrels
Glue in barrels
Bone ash
Common brick
Pressed brick
Building paper, etc.
Butter crocks and jars boxed
Butter tubs and firkins
Door mats
Mattresses
Bread meal
Paper pails
Water pails
Paper bottles
Baking powder
Sausage

Meat sausage
Leather scraps
Shoe blacking
Stamped ware
Waste
Window fixtures boxed
Blackboards
Hog intestines
Hoofs and horns
Hop poles
Horse and mule shoes
Jelly in tin cans
Kalsomine
Kraut
Lard in cans boxed or crated
Lettuce in bulk
Linseed meal
Oil cake meal
Meats, N.O.S.
Old rope
Oyster plant
Parsnips
Cutsoles
Picket pins
Packed pork
Tomato pulp
Fertilizing salt
Sand
Sawdust
Iron scrap
Leather scrap in boxes or barrels
Shavings
Sod
Smoked tongues
Evaporated fruit
Fruit baskets
Dry glue
Harness blacking
Apple seed
Bone black
Butter color in barrels
Butter moulds
Felt for carpet lining
Leather counters

Fifth Class

Linseed oil
Canned meats
Mould boards
Pickled beef
Salted meats
Sausage cases
Soap, N.O.S.
Split peas
Tallow
Vegetables, dried or desiccated
Vinegar
Dried meats
Earthenware
Tannin extracts
Animal food
Ginger ale
Grease
Harness oil soap
Hogs' hair and plastering
Hominy
Jelly
Kaolin
Lard oil
Axle grease
Paper bags
Cracklings in packages
Beans in sacks or barrels
Hard bread
Catsup
Jelly
Mince meat
Barley, pearl
Pop corn
Cerealine
Meats, N.O.S.
Condensed milk
Paste (flour)
Printed wrapping paper
Meat preserving salt
Scouring materials
Canned soup
String beans
Toothpicks
Preserved vegetables
Door braces
Dried vegetables
Eggs, condensed in cans
Felt pipe covering
Glucose, grape and glucose syrup
Hair rope
Harrow teeth
Hollow ware

Horse and mule shoes	Castor beans
Kalsomine	Pickles
Lard	Horseradish
Apples	Fruit butter
Bags	Mustard
Beans	Crockery
Dried beef	Cracked wheat

I will not weary the Board by reading them all over, but here are some 150 commodities which this State is fitted naturally to produce for the home markets of the eastern portion of the State, but which I will show they are shut out of by unjust and discriminatory local rates, which are preventing the development of interior Nebraska to the benefit of these outside wholesale points. I wish to show you how these classes of goods in which the people are most interested, the fourth and fifth classes, are discriminated against under the local distance tariff as compared with fourth and fifth classes under the through tariffs from outside points to the State. In order to get at this comparison, I have taken about thirteen Nebraska points and the through rates to these points from Chicago, and ascertained the percentage which the fourth-class rate bears to the first-class rate, and which the fifth-class rate bears to the first-class rate.

I will read the tables showing relative discriminations of the local distance tariff of the Chicago, Burlington & Quincy Railway, against fourth- and fifth-class freight as compared with fourth- and fifth-class freight shipped under the through freight tariff from Chicago to Nebraska points.

First table showing the average relation of fourth- and fifth-class freight to first-class freight under the through tariff of the Chicago, Burlington & Quincy Railway, to thirteen Nebraska points

Chicago to	1st-cl. rate	4th-cl. rate	5th-cl. rate	Per cent 4th-cl. rate of 1st-cl. rate	Per cent 5th-cl. rate of 1st-cl. rate
Omaha	75	30	25	40	33
Lincoln	80	34	28	42	35
Fairmont	110	35	45	50	41
Harvard	120	58	50	49	41
Hastings	126	60	51	47	40
Kearney	135	70	59	52	44
Indianola	148	82	71	55	48
Wahoo	80	34	28	42	35
Seward	100	47	37	47	37
York	110	55	45	50	41
Grand Island	126	60	51	47	41
Broken Bow	146	77	66	52	45
Beatrice	90	42	35	47	39

Average percentage which fourth-class rate is of first-class rate under the through tariff from Chicago, 47 9/13 per cent.

Average percentage which fifth-class rate is of first-class rate under the through tariff from Chicago, 40 per cent.

Second table showing the average relation of fourth- and fifth-class freight under the local distance tariff of the Chicago, Burlington & Quincy Railway for Nebraska

Miles	1st-cl. rate	4th-cl. rate	5th-cl. rate	Per cent 4th-cl. rate of 1st-cl. rate	Per cent 5th-cl. rate of 1st-cl. rate
5	$.13	$.07	$.06	.55	.46
25	.22	.14	.10	.64	.45
50	.32	.21	.16	.66	.50
100	.52	.35	.30	.67	.58
150	.63	.40	.35	.63	.55
200	.73	.46	.41	.63	.56
250	.78	.51	.46	.65	.58
300	.83	.56	.51	.67	.61
350	.88	.61	.56	.70	.64
400	1.10	.76	.71	.70	.65
450	1.35	.91	.86	.68	.63
500	1.60	1.06	1.01	.66	.63

Average percentage which fourth-class rate is of first-class rate under the local distance tariff, 65 3/10 per cent.

As against the through tariff average of preceding table, 47 9/13 per cent.

Average percentage which fifth-class rate is of first-class rates under the local distance tariff, 57 per cent.

As against the through tariff average of preceding table, 40 per cent.

Thus we see that this railroad company, in order to prevent the supplying of home markets by the interior of the State, which would decrease their business into the State under the through rates, arbitrarily raises the fourth and fifth classes out of their usual proportion to the first class for the sake of putting an additional burden on fourth and fifth class.

I will now show you the relation of that condition of affairs to the home markets of the State. I have indicated on this chart what portion of the State of Nebraska can compete in the home markets of Nebraska as against Chicago, Kansas City, and Omaha on these very products which I have named (which are shipped as fourth- and fifth-class freight). I do this in order to show the relative discrimination against the citizens of interior Nebraska on fourth and fifth classes in their own home markets. I will state, in the first place, that this map is not large enough to indicate the distance on the proper scale from Chicago to Omaha, a distance of 508 miles by the Chicago, Burlington & Quincy Railroad, yet I have drawn a curved line around the city of Omaha which represents about the limit of the area where fourth- and fifth-class shippers in interior Nebraska can ship into Omaha at equal rates with Chicago; that circumference is located only 125 miles from the city of Omaha. No man in the State of Nebraska located outside of that little circle, a distance at all points of only 125 miles from Omaha, can compete on fourth- and fifth-class freight with Chicago 500 miles away from Omaha, the best home market of Nebraska. Consider what a tremendous discrimination against the development of interior Nebraska upon fourth- and fifth-class rates is presented by that circle! Take the fourth- and fifth-class rates from St. Louis and Kansas City to Omaha and see how far they will carry freight under fourth- and fifth-class rates of the local distributing tariff.

You will find it is 108 miles. You will find that any citizen of Nebraska living at a distance of 108 miles from the city of Omaha pays as high a rate on fourth- and fifth-class freight to Omaha as is paid by the St. Louis shipper to Omaha, 455 miles away. And this is the local rate system of the State which they uphold here and say is reasonable: a system which is bringing even the lighter farm products of Iowa into Nebraska home markets as against the domestic shipper in the interior of the State. Take the city of Lincoln and draw a circle around it with a radius of 125 miles, and not a man outside of that area in the State of Nebraska can fairly compete as against the Chicago shipper on fourth- and fifth-class freight in Lincoln, the second-best home market of the State. One hundred and twenty-five miles as against 542 miles from Chicago to Lincoln, and remember that every man on the Chicago, Burlington & Quincy Railroad between Chicago and Omaha and Chicago and Lincoln gets the Chicago rate or less than the Chicago rate!

Are you, gentlemen of the Board, to keep in force these rates for the benefit of Iowa, for the benefit of the Kansas City shipper, for the benefit of the Chicago shipper, and for the benefit of the St. Louis shipper, as against the interests of the citizens of interior Nebraska?

Secretary of State Allen: Take some certain article and give us an illustration by comparison of shipments to Lincoln.

Mr. Dawes: I have read here 150 articles. I will state again, however, some of the articles upon which this discrimination against the interior shipper is found. I read here articles shipped fourth and fifth class. [Mr. Dawes then re-read a portion of the list of commodities given before.] I have the list if these gentlemen wish to inform themselves upon the commodities.

Auditor of State Benton: Do I understand you to say that jelly in glasses is a fourth- and fifth-class article?

Mr. Dawes: Yes, sir; it depends upon the way it is packed, of course. Sometimes it goes under other classes when packed differently.

Secretary of State Allen: Do I understand you are stating the case of the Lincoln jobber?

Mr. Dawes: I am simply stating my opinion as a citizen of Nebraska. I believe, however, that the future prosperity of Lincoln depends upon the proper development of the interior of the State. The line drawn around Lincoln has nothing to do with the shipments from Lincoln out, but I am speaking of the man who ships into Lincoln and wishes to use Lincoln as a home market, and ship these different goods into a home market. The interest which the farmers of Nebraska have in the building-up of home markets is very great. On many of the farm products, as I will show you by my tables, the farmer is discriminated against in his own home markets by these exorbitant local rates. I know that so far out as Burlington on the Chicago, Burlington & Quincy Railroad in Iowa men are shipping cheese in here. We want such a local rate system in this State that the internal development of the State may be encouraged rather than retarded by the rates. I take it the position of Mr. Holdredge is that they will give the rates as fast as we get the factories. I say make living rates first and the factories and other industries will spring up afterwards. If the State of Nebraska, through its Board of Transportation is going to assume that, because of the generosity of the railroad company, they will send their men around to look up these little industries in the State and give them commodity rates, it is going to make a very great assumption. What we want is local rates upon which business can be done in the home markets of Nebraska. It is from small beginnings

that a large business generally has its growth. And here this gentleman [Mr. Holdredge] comes up before you and says we will have the rates when we have the business. What I want to know is how we will be able to start up a business here and have a rate in the State which on fourth- and fifth-class freight keeps out the shipper over 125 miles from Lincoln as against 542 miles from Chicago to Lincoln? That is the way they protect the infant industries of Nebraska! That is the way they build them up!

Auditor of State Benton: You stated the through rate was made up of the sum of the local and through rate to Omaha. Is that correct?

Mr. Dawes: Yes, sir, that is correct. By the local I mean the local distributing rate. The distributing Lincoln and Omaha rate is not the local distance tariff rate, however. The rate, for instance, to Hastings is made by the sum of the rate to Lincoln or Omaha and the distributing rate from Lincoln or Omaha to that point. I am not speaking of commodity rates; I am talking of those articles which are shipped under the local distance and distributing tariff. I have my belief as to the coal rate and the wood rate and corn rate, but what I am arguing on and what is before this Board for consideration and for readjustment is the local distance tariff rate, classes 1, 2, 3, 4, 5, A, B, C, D, E, and the local distributing rates when used on east-bound shipments.

Auditor Benton: Don't you think the people of this State are much more interested in cattle than they are in hoop-poles and jelly?

Mr. Dawes: A great deal more, but in submitting hoop-poles and jelly I submitted 150 other articles, and I have more tables which I shall submit to you — 600 articles shipped under these ten classes besides hoop-poles and jelly, all of which the citizens of Nebraska could produce

and sell to the home markets of the State, as against these outside points, if they had the rates.

What can the future development of the State of Nebraska be with such discrimination as that against it? And what is the cure for it? Mr. Holdredge suggests the giving of discriminatory commodity rates to the big man after he gets big without giving him a chance to grow big.

Mr. Munroe, of the Union Pacific Railway: Do I understand you to say that Nebraska men are discriminated against as compared with Chicago? For instance, that if a man in Lincoln buys goods in Chicago and ships them to Lincoln and redistributes them for points west, he pays a higher rate than the Chicago man shipping to the same point?

Mr. Dawes: No, certainly not. I say that the Chicago, Omaha, and Lincoln rates to any given point in the State are exactly the same; but I wish to show pretty soon the relative discrimination in favor of these two cities of Lincoln and Omaha as against some other small cities which, under Mr. Holdredge's assumption, ought to be sought out and helped a little.

Attorney-General Hastings: Those, though, only refer to Lincoln and Omaha?

Mr. Dawes: No, sir. There are other distributing points in the State; Hastings, I believe, has recently had a distributing rate, and Nebraska City has a distributing rate.

Mr. Holdredge, of the Burlington & Missouri River Railway: Has Frémont?

Mr. Dawes: I don't know whether Frémont has or not.

Mr. Holdredge: How about the rates from all the Missouri towns? The rate from every river town is the same.

Mr. Dawes: That is for business coming from Chicago to points in the State; that is the through rate; I am complaining of the disproportion and resulting discrimination

from the difference between the local rates in the State and the through rates to the State.

Mr. Holdredge, of the Burlington & Missouri River Railway: I would like to ask if you think the through rates are too low?

Mr. Dawes: I think the through rates are too high. Under all the other rate systems of this country the rule is preserved, with very few exceptions, that the rate decreases proportionately to the distance because the cost of service decreases in that proportion. The rate per ton per mile should decrease proportionately with the distance of the haul. Now, what is the condition of affairs so far as Nebraska is concerned? Do they preserve that rule? Do they follow it? Not at all. They take the through rate per ton per mile to the cities of Lincoln and Omaha, and then add the local distributing rate, which increases the per ton per mile rate after freight leaves the cities of Lincoln and Omaha whether the freight is shipped directly from Chicago to the interior point or whether reshipped at Omaha or Lincoln. The theory of decreasing rates per ton per mile is followed until they get from Chicago to Lincoln and Omaha, and then the local distributing rate is added as against the interior portions of the State, making the through rate to interior points the sum of the through rate to Lincoln or Omaha plus the local distributing rate from either of those two cities to the interior point.

Mr. Holdredge: Do you know what the purchaser in Hastings pays for a farm wagon as compared with the purchaser in Des Moines, Iowa? Or can you show me anything the farmer buys in Hastings and pays more for than in Des Moines, Iowa?

Mr. Dawes: When you come to your time for speaking, you can make that argument if there is anything in it.

Mr. Munroe, of the Union Pacific Railway: Do you think

that a uniform percentage should govern between first, second, third, fourth, and fifth classes, and classes A, B, C, D, E, in all sections of the country?

Mr. Dawes: Not being acquainted with the conditions which exist in all sections of the country, I certainly should not be foolish enough to attempt to answer that question.

Mr. Munroe, of the Union Pacific Railway: Do you think that the man who loans money in New England ought to get the same rate of interest as the man who loans in western Nebraska? That is a parallel case.

Mr. Dawes: I wish you to make that argument to the State Board of Transportation, if you desire. I wish to call the attention of the Board to this fact: That the argument that we have heard in the past against the lowering of this class of through rate is this, — that the State of Nebraska does a very small local business and these roads must therefore charge higher on the last end of a long haul because local business in these districts is so small. Yet I have shown that this road, running through the unsettled portion of the country, has a system of local rates in this State which are practically prohibitive for the sake of allowing this road a high tariff on the long-haul plan on commodities hauled into the State. They have put such rates in force as prevent the transaction of local business, and then claim that because there is no local business, high through rates must be charged and the rate per ton per mile on the long haul into the State must be increased as the distance increases. I have prepared a set of tables here. I did not get a notice of this meeting — being absent from the city — in time to properly prepare this statement for to-day, but I wish to present in a short time to the Board of Transportation a list of some six hundred articles taken from the Western Classification tabulated for Nebraska, into classes 1, 2, 3, 4, 5, A, B, C, D, E. These commodities

which I have copied out are those which in my judgment could be produced by the citizen of interior Nebraska in competition with the wholesale points of Chicago, St. Louis, and Kansas City. I have also prepared another set of tables by which the relative discrimination against interior Nebraska in the home markets of Omaha and Lincoln is shown. These tables show how interior Nebraska is shut out of the home markets by these unreasonable local rates. I have taken the fourth and fifth classes in my preceding illustrations because they are discriminated against the greatest, and because it is the fourth and fifth classes in which the people of this State are mostly interested. These tables include all classes. Let me read them.

Table showing the distance from Omaha at which a citizen of interior Nebraska shipping to Omaha, under the local merchandise tariff, pays the same rate as a Kansas City shipper pays to Omaha, 200 miles distant from Kansas City

1st class rate,	$.40	from	Sutton,	Neb.,	123	miles to	Omaha	against	200 miles	Kansas City to Omaha.
2d "	"	.35	"	Sutton,	"	123	"	"	"	"
3d "	"	.28	"	Grafton,	"	115	"	"	"	"
4th "	"	.23	"	Friend,	"	92	"	"	"	"
5th "	"	.19	"	Friend,	"	92	"	"	"	"
Class A	"	.17	"	Grafton,	"	115	"	"	"	"
" B	"	.13	"	Crete,	"	75	"	"	"	"
" C	"	.11	"	Crete,	"	75	"	"	"	"
" D	"	.09	"	Crete,	"	75	"	"	"	"
" E	"	.07	"	Exeter,	"	101	"	"	"	"

Every point on the Chicago, Burlington & Quincy line between Kansas City and Omaha takes the Kansas City rate or less to Omaha.

Table showing the distance from Lincoln at which a citizen of interior Nebraska shipping to Lincoln, under the local merchandise tariff, pays the same rate as a St. Louis shipper pays to Lincoln, 466 miles distant from St. Louis

1st class fr't,	$.60	from	Atlanta,	Neb.,	160	mi. to	Lincoln,	against	466 mi.	St. Louis to Lincoln
2d "	"	.45	"	Lowell,	"	123	"	"	"	"
3d "	"	.36	"	Juniata,	"	103	"	"	"	"
4th "	"	.29	"	Kenesaw,	"	112	"	"	"	"
5th "	"	.23	"	Hastings,	"	97	"	"	"	"
Class A	"	.255	"	Axtell,	"	138	"	"	"	"
" B	"	.205	"	Holdredge,	"	152	"	"	"	"
" C	"	.18	"	Holdredge,	"	152	"	"	"	"
" D	"	.155	"	Culbertson,	"	240	"	"	"	"
" E	"	.14	"	Benkelman,	"	281	"	"	"	"

Every point on the Chicago, Burlington & Quincy line between St. Louis and Lincoln takes the St. Louis rate to Lincoln, or less.

Table showing the distance from Omaha at which a citizen of interior Nebraska shipping to Omaha, under the local merchandise tariff, pays the same rate as a St. Louis shipper pays to Omaha, 455 miles distant from St. Louis

1st class fr't,	$.55	from	Lowell,	Neb.,	178	miles	to	Omaha,	against	455	miles	St. Louis to Omaha
2d "	"	.40	"	Harvard,	"	135	"	"	"	"	"	"
3d "	"	.32	"	Sutton,	"	123	"	"	"	"	"	"
4th "	"	.25	"	Fairmont,	"	108	"	"	"	"	"	"
5th "	"	.20	"	Exeter,	"	101	"	"	"	"	"	"
Class A	"	.225	"	Harvard,	"	135	"	"	"	"	"	"
" B	"	.175	"	Hastings,	"	171	"	"	"	"	"	"
" C	"	.15	"	Hastings,	"	171	"	"	"	"	"	"
" D	"	.125	"	Kearney,	"	190	"	"	"	"	"	"
" E	"	.11	"	Loomis,	"	214	"	"	"	"	"	"

Every point on the Chicago, Burlington & Quincy line between St. Louis and Omaha, Nebraska, takes the St. Louis rate or less to Omaha.

Table showing the distance from Omaha at which a citizen of interior Nebraska shipping to Omaha, under the distributing merchandise rates, pays the same rate as a Chicago, Illinois, shipper pays to Omaha, 508 miles distant from Chicago

1st class fr't,	$.75	from	Dunning,	Neb.,	265	miles	to	Omaha,	against	508	miles	Chicago to Omaha
2d "	"	.60	"	Bertrand,	"	222	"	"	"	"	"	"
3d "	"	.42	"	Juniata,	"	157	"	"	"	"	"	"
4th "	"	.30	"	Hastings,	"	151	"	"	"	"	"	"
5th "	"	.35	"	Aurora,	"	128	"	"	"	"	"	"
Class A	"	.30	"	Holdredge,	"	206	"	"	"	"	"	"
" B	"	.25	"	Loomis,	"	214	"	"	"	"	"	"
" C	"	.20	"	Minden,	"	183	"	"	"	"	"	"
" D	"	.175	"	Linscott,	"	226	"	"	"	"	"	"
" E	"	.16	"	Mullen,	"	319	"	"	"	"	"	"

Every point on the Chicago, Burlington & Quincy line between Chicago and Omaha in Illinois and Iowa takes the Chicago rate or less to Omaha.

Table showing the distance from Lincoln at which a citizen of interior Nebraska shipping to Lincoln, under the distributing merchandise rates, pays the same rate as a Chicago shipper pays to Lincoln, 542 miles distant from Chicago

1st class rate	$.80	from	Hyannis,	Neb.,	302	miles	to	Lincoln,	against	542	miles	Chicago to Lincoln
2d "	"	.65	"	Natick,	"	230	"	"	"	"	"	"
3d "	"	.46	"	Holdredge,	"	152	"	"	"	"	"	"
4th "	"	.34	"	Newark,	"	129	"	"	"	"	"	"
5th "	"	.28	"	Lowell,	"	123	"	"	"	"	"	"
Class A	"	.33	"	Bartley,	"	211	"	"	"	"	"	"
" B	"	.28	"	Indianola,	"	217	"	"	"	"	"	"
" C	"	.23	"	Mullen,	"	264	"	"	"	"	"	"
" D	"	.205	"	Lisbon,	"	354	"	"	"	"	"	"
" E	"	.19	"	Berea,	"	371	"	"	"	"	"	"

Every point on the Chicago, Burlington & Quincy line between Chicago and Lincoln, Nebraska, in Illinois and Iowa takes the Chicago rate or less to Lincoln.

TABLE *1* — *Showing the distance from Omaha, at which a citizen of interior Nebraska, shipping between two Nebraska points, under the local distance tariff of the Chicago, Burlington & Quincy Railway, pays the same rate as a Chicago, Illinois, shipper pays to Omaha, 508 miles distant from Chicago*

1st class fr't,	$.75	from a point in	Nebraska,	220	mi. to	Omaha,	against	508	mi. Omaha from Chicago
2d " "	.60	"	"	175	"	"	"	"	"
3d " "	.42	"	"	110	"	"	"	"	"
4th " "	.30	"	"	75	"	"	"	"	"
5th " "	.25	"	"	75	"	"	"	"	"
Class A "	.30	"	"	165	"	"	"	"	"
" B "	.25	"	"	190	"	"	"	"	"
" C "	.20	"	"	170	"	"	"	"	"
" D "	.175	"	"	240	"	"	"	"	"
" E "	.16	"	"	320	"	"	"	"	"

TABLE *2* — *Showing the distance from Lincoln, Nebraska, at which a citizen of interior Nebraska shipping between two Nebraska points, under the local distance tariff of the Chicago, Burlington & Quincy Railway, pays the same rate as a Chicago, Illinois, shipper pays to Lincoln, 542 miles distant from Chicago*

1st class fr't,	$.80	from a point in	Neb.	270	mi. to	Lincoln,	against	542	mi. Lincoln from Chicago
2d " "	.65	"	"	200	"	"	"	"	"
3d " "	.46	"	"	130	"	"	"	"	"
4th " "	.34	"	"	95	"	"	"	"	"
5th " "	.28	"	"	90	"	"	"	"	"
Class A "	.33	"	"	195	"	"	"	"	"
" B "	.28	"	"	220	"	"	"	"	"
" C "	.23	"	"	220	"	"	"	"	"
" D "	.205	"	"	300	"	"	"	"	"
" E "	.19	"	"	370	"	"	"	"	"

TABLE *3* — *Showing the distance from Beatrice, Nebraska, at which a citizen of interior Nebraska shipping between two Nebraska points, under the local distance tariff of the Chicago, Burlington & Quincy Railway, pays the same rate as a Chicago, Illinois, shipper pays to Beatrice, 592 miles distant from Chicago*

1st class fr't,	$.90	from a point in	Neb.	350	mi. to	Beatrice,	against	592	mi. Beatrice from Chicago
2d " "	.75	"	"	300	"	"	"	"	"
3d " "	.54	"	"	170	"	"	"	"	"
4th " "	.42	"	"	170	"	"	"	"	"
5th " "	.35	"	"	150	"	"	"	"	"
Class A "	.38	"	"	240	"	"	"	"	"
" B "	.31	"	"	250	"	"	"	"	"
" C "	.26	"	"	280	"	"	"	"	"
" D "	.235	"	"	350	"	"	"	"	"
" E "	.21	"	"	290	"	"	"	"	"

TABLE 4 — *Showing the distance from Omaha, Nebraska, at which a citizen of interior Nebraska shipping between two Nebraska points, under the local distance tariff of the Chicago, Burlington & Quincy Railway, pays the same rate as a St. Louis shipper pays to Omaha, 455 miles distant from St. Louis*

1st class fr't,	$.55	from a point in	Neb.	110	mi. to	Omaha,	against	455	mi. to	Omaha from St. Louis
2d	"	"	.40	"	80	"	"	"	"	"
3d	"	"	.32	"	70	"	"	"	"	"
4th	"	"	.25	"	60	"	"	"	"	"
5th	"	"	.20	"	60	"	"	"	"	"
Class A	"		.225	"	85	"	"	"	"	"
"	B	"	.175	"	110	"	"	"	"	"
"	C	"	.15	"	110	"	"	"	"	"
"	D	"	.125	"	110	"	"	"	"	"
"	E	"	.11	"	220	"	"	"	"	"

TABLE 5 — *Showing the distance from Lincoln, Nebraska, at which a citizen of interior Nebraska, shipping between two Nebraska points, under the local distance tariff of the Chicago, Burlington & Quincy Railway, pays the same rate as a St. Louis shipper pays to Lincoln, 466 miles distant from St. Louis*

1st class fr't,	$.60	from a point in	Neb.	135	mi. to	Lincoln,	against	466	mi. to	Lincoln from St. Louis
2d	"	"	.45	"	100	"	"	"	"	"
3d	"	"	.36	"	80	"	"	"	"	"
4th	"	"	.29	"	70	"	"	"	"	"
5th	"	"	.23	"	70	"	"	"	"	"
Class A	"		.255	"	115	"	"	"	"	"
"	B	"	.205	"	140	"	"	"	"	"
"	C	"	.18	"	140	"	"	"	"	"
"	D	"	.155	"	190	"	"	"	"	"
"	E	"	.14	"	280	"	"	"	"	"

TABLE 6 — *Showing the distance from Beatrice, Nebraska, at which a citizen of interior Nebraska, shipping between two points in Nebraska, under the local distance tariff of the Chicago, Burlington & Quincy Railway, pays the same rate as a St. Louis shipper pays to Beatrice, 453 miles distant from St. Louis*

1st class fr't,	$.70	from a point in	Neb.	185	mi. to	Beatrice,	against	453	mi. to	Beatrice from St. L.
2d	"	"	.55	"	150	"	"	"	"	"
3d	"	"	.44	"	120	"	"	"	"	"
4th	"	"	.37	"	120	"	"	"	"	"
5th	"	"	.30	"	105	"	"	"	"	"
Class A	"		.305	"	165	"	"	"	"	"
"	B	"	.235	"	170	"	"	"	"	"
"	C	"	.21	"	190	"	"	"	"	"
"	D	"	.185	"	250	"	"	"	"	"
"	E	"	.16	"	320	"	"	"	"	"

TABLE 7 — *Showing the distance from Omaha, Nebraska, at which a citizen of interior Nebraska, shipping between two Nebraska points, under the local tariff of the Chicago, Burlington & Quincy Railway, pays the same rate as a Kansas City or Leavenworth shipper pays to Omaha, 200 miles distant from Kansas City*

1st class fr't,	$.40	from a point in	Nebraska	70	mi. to	Omaha,	against	200	mi.	Kansas City to Omaha
2d	"	"	.35	"	65	"	"	"	"	"
3d	"	"	.28	"	55	"	"	"	"	"
4th	"	"	.23	"	55	"	"	"	"	"
5th	"	"	.19	"	60	"	"	"	"	"
Class A	"		.17	"	55	"	"	"	"	"
"	B	"	.13	"	70	"	"	"	"	"
"	C	"	.11	"	70	"	"	"	"	"
"	D	"	.09	"	90	"	"	"	"	"
"	E	"	.07	"	140	"	"	"	"	"

The rates from Kansas City and Leavenworth to Omaha are the same as the rate from Kansas City and Leavenworth to Lincoln (237 miles from Kansas City) and Beatrice.

Just think of the abstract unreasonableness of these fourth- and fifth-class rates. From Crete to Hastings is about 77 miles, and the shipper from Crete to Hastings under the fifth-class rate would pay as high a fourth- or fifth-class rate as the shipper from Chicago to Omaha, 508 miles.

Auditor Benton: How would it be on brick shipped in Nebraska as compared with brick shipped in Iowa?

Mr. Dawes: I cannot tell you, sir; I have made no comparison on brick. I am speaking of local distance tariff rates.

Auditor Benton: How is it with hay and straw?

Mr. Dawes: Those are shipped under the commodity tariff.

Auditor Benton: They are shipped locally, are they not?

Mr. Dawes: Not to any large extent. There is hay in this State shipped from one point to another, occasionally.

Auditor Benton: Don't you know that there were over six hundred cars of stone shipped from Weeping Water to Lincoln?

Mr. Dawes: I am very glad to hear it, and I came here to argue the importance of the local distance tariff rates in the State of Nebraska. I think with you that the local business done is much larger in proportion to the through business than has been stated by these gentlemen. They have said it is ten per cent, and my belief is that the local business of this State bears a proportion of at least thirty to thirty-five per cent of the total business done in the State on through rates. If that is not the case, these roads here are great exceptions to the general rule. The larger the local shipments

in the State, the more important it is for us to get fair and equitable local rates in the State.

Auditor Benton: Is n't the local rate in Nebraska lower than it is in Iowa?

Mr. Dawes: I wish you would make your argument to your colleagues on the State Board of Transportation, and show that. I would be glad to hear about it from you.

In this matter of distributing rates, the through rates to interior Nebraska points which Chicago, Omaha, and Lincoln enjoy are the same. Now, if a man wants to start in the wholesale business in interior Nebraska, in order to compete with the Chicago, Omaha, and Lincoln wholesalers, he must ship under something else than the local distance tariff for the reason that the sum of the through rate from Chicago or St. Louis to whatever point it is in Nebraska in which he desires to start a wholesale business, plus the local distance tariff rate to the point in which he desires to sell his goods, would be more than the sum of the rates from Chicago to Omaha or Lincoln plus the distributing rates to that point. Therefore, in addition to these general discriminations against points in interior Nebraska in home markets, we see another discrimination against these points in the matter of distributing business. We see that the rate system we have in Nebraska is interfering with the natural growth and development of the State. For not only is it impossible to ship from the interior portions of Nebraska to the home markets of the State because of the unjust proportion existing between through and local rates, but it is impossible for the most of the smaller towns to do any wholesaling to any point west. Take a great many of the towns in the State, such as York, for instance. York can have no wholesale business, and it has practically no home market in the State to which to ship its products.

And this general discrimination against the State of Nebraska is something in which the citizens of Omaha and Lincoln are just as much interested as the people in the interior of the State. For it is a very short-sighted policy which holds that a policy of rate-charging detrimental to the best interests of Nebraska is beneficial to its two largest cities. This long-haul theory is an old theory. Yet I have never heard the long-haul theory urged against rates of Nebraska before. The object of these discriminations, however, is plainly to carry out the long-haul plan. Why should the local fourth- and fifth-class rates be raised so far out of proportion to first-class rates if it is not that the railroad companies do not desire business done between local points on these classes? The people look to you, gentlemen, as servants of the people employed to protect their interests, for such protection in these local rates as will give them a chance to do business in the home markets of the State. I trust, gentlemen, that you are willing to do your duty and act on your best judgment for the interests of the people in this section of God's country. I ask you not to make up your judgment solely by a comparison of the rates of this State with the rates of Colorado, Dakota, Kansas, or Iowa, and decide that because Iowa has so many people to the square mile, so many miles of railroad, and is in those regards ahead of Nebraska, therefore you should not change the Nebraska rates. Is that the basis upon which these rate schedules are formed, and upon which these rates are figured? Not at all; and in no way can the absurdity of that style of argument which we have heard so much before this State Board of Transportation and before the railroad committees in charge of railroad legislation — in no way can the absurdity of it be better illustrated than to take the State of South Dakota, which is as far behind the State of Nebraska as Nebraska is behind

Iowa, and find that in Dakota the local rates are better to-day than the local rates of Nebraska.

Mr. Munroe: How do you account for the fact that Dakota is so much behind Nebraska in prosperity if she has the local rates very much better than the State of Nebraska; and would not that dispute your statement that the reduction of rates is the only thing necessary for greater prosperity?

Mr. Dawes: I have never claimed that low railroad rates are the only basis of prosperity. I am willing to concede this point, however: That very often the abstract rate charged does not make so much difference. Take, for instance, the case of Lincoln here and what a great commotion was raised when the differential from Chicago on first-class rates between Lincoln and Omaha was ten cents, when that rate was sixty-five cents to Omaha and seventy-five cents to Lincoln. What was the reason? That was because there was a discriminatory rate against Lincoln; because she could not get into the interior portions of the State with a wholesale business on a par with Omaha upon a ten-cent differential. You gentlemen of Nebraska railroads have seen fit within the last year to make a general advance on rates, and you have raised the first-class rate to Lincoln and Omaha both ten cents, and yet you do not hear any complaint from Lincoln and Omaha? Now, it is because of an outrageous discrimination that these complaints are largely made against the local rate system of the State. I do not for a moment admit — and I expressly deny — that these local rates are reasonable in themselves, considered abstractly, but I do say that in addition to being unreasonably high, they are outrageous because they discriminate against the interior development of the State in favor of eastern Iowa, Chicago, and other outside points.

Mr. Munroe: I understand you to say that the roads were doing what they could to crush the infant industries of Nebraska?

Mr. Dawes: I simply stated that the local rates of this State were so formed that the infant industries had no chance to develop as against outside competition.

Mr. Munroe: Do you know that one of the most prominent industries started in this State in the last few years is the manufacture of beet sugar?

Mr. Dawes: I have no doubt that you have given commodity rates, and are willing to give commodity rates, to such an establishment as a beet-sugar factory, but you are singling out one location in the State; and my point is this: Taking the general system of rates as a whole, you are rendering impossible the proper development of interior Nebraska, and I say that such a general system is wrong and unjust and unreasonable. The fact that you have dealt justly with one commodity is no reason why you shall not deal justly with all.

There is just one other matter which I want to call the attention of the Board to, and that is an important matter. The State Board of Transportation announced that the Chicago, Burlington & Quincy Railroad, which it took as a fair representative of the Nebraska roads, was earning only about 5.09 per cent upon its cost. What does that 5.09 per cent represent? They report it as the percentage formed by dividing the net earnings by the cost of the road. Does that represent their measure of profits? Not at all. It represents the measure of profits not even on the watered stock. How, then, do we determine the ability of the road to stand a reduction in rates unless we determine what its rates of profits are? Admitting, merely for the sake of argument, that a reduction of rates means a reduction in earnings, you have found that the Chicago, Burlington & Quincy

Railroad Company's earnings for three years, which include the "strike year" when the earnings were cut down to about one half the usual amount, averaged 5.09 per cent. Now, just so long as this Board confuses and mingles the very low earnings which the railroad bondholder has upon his investment with the very high earnings which the railroad stockholder has upon the intrinsic value of his investment, so long as this Board refuses to look into the relation of the bond issue of the road to the cost of the road, and the relation of the interest paid upon bonds to the earnings made from the proceeds of those bonds, just so long will this Board cut itself out of the right to act in these premises or ever make a reduction of local rates in this State.

Now, as must be admitted, between the rights of innocent stockholders and the citizens of Nebraska, also innocent, the rights of the citizens of Nebraska must prevail. Yet we claim that, in assuming that a reduction of the local rates in this State would reduce the earnings of the road, the railway officials beg the question. It is very doubtful if the increase in the local business of the State, which would result from fair and equitable living rates, would not increase the tonnage of the road so much as to make that reduction in the long run profitable. Relative to this long-haul theory, I will say that before I came West I lived in a country where we had the opportunity of seeing the full benefits to be received from its application. The Baltimore & Ohio Railroad proceeded on that plan to make the most they could for the time being, without regard to the future of the country in which they operated, and the result is the Baltimore & Ohio Railroad for a long distance on its line runs to-day through a wilderness. Contrast the condition of the Baltimore & Ohio with the Pennsylvania road, which has developed the local business along its system, and see how much better the condition of the latter road is, which

runs through a country not very much better, so far as natural resources are concerned, than that of the Baltimore & Ohio.

I talked with a gentleman in New York, the other day, who had some Nebraska four per cent extension bonds of the Chicago, Burlington & Quincy Railroad which he had purchased at eighty cents. What is the reason he was able to get those bonds so cheap? It is because the Chicago, Burlington & Quincy Railroad is being operated to-day on the long-haul theory, and has built away up in the northwestern portion of this State a line of road along which there is little country which can do a local business, with the sole idea of getting through business. They have encumbered their road since December 13, 1885, with a bonded indebtedness of about $35,000,000, with a consequent increase in fixed charges; yet the net earnings are less, with all this increase in mileage and fixed charges to-day, than they were in 1885. The reason is, because, trusting to the long-haul theory and striving simply for a through business, they have built in a country where they have little local business even agriculturally. And following out the theory upon which these lines were built and discriminating against all local business in the State to-day, they are making the same mistake on the rest of the lines that they made on the Cheyenne and New Castle lines when they built them.

Mr. Kelley, of the Union Pacific Railway: Your argument is that no road ought to extend its line into or through a Western country?

Mr. Dawes: I simply use these facts as illustrating that the Chicago, Burlington & Quincy Railway is operated on the long-haul theory. If you want me to pass upon a railway prospectus running some three or four hundred miles into the Western States, with but a few minutes' thought on the subject, I will not attempt to answer such a ques-

tion in so short a time — certainly not until you told me the nature of the Western country into which you build.

Mr. Kelley: Do you believe that it is right for the State Board of Transportation to adopt the policy which you have been arguing and shut out railroad-building in western Nebraska?

Mr. Dawes: You beg the question, and assume that the reduction of local rates in this State would decrease the earnings of the road. I say that that is an assumption which you have yet to prove, and I tell you now that my belief is that the next local rate agitation will be from the bondholders as well as from the farmers of Nebraska — bondholders who discover that the road is being operated on a short-sighted policy based upon the idea evidently that the road will prosper whether the country through which it runs prospers or not.

Secretary Allen: Do I understand you to say that it is your opinion that the bondholders of the Chicago, Burlington & Quincy are dissatisfied with the earnings of the road at this time?

Mr. Dawes: Very greatly, yes, sir, as well as the stockholders of the road. And they are largely dissatisfied with the earnings, not so much because of the reduction in gross earnings, but because of the reduction in net earnings caused by increase in the fixed charges.

Mr. Holdredge: Is there no reduction of gross earnings?

Mr. Dawes: Yes, sir, there has been, but they attribute that to natural causes, and the other reduction they attribute to bad management. [Laughter.] I mean nothing personal at all, Mr. Holdredge.

Auditor Benton: If there is so much complaint as you seem to think there is in regard to the rate question, why is it that some of these parties have not filed a complaint with this Board, as they have the right to do? During my

membership of the Board in the past three years there has never been a complaint filed.

Mr. Dawes: If they have had as much experience with railroad men in this State as I have, they know they are pretty sharp, well-equipped men, and they know just as well as I know that they will have to meet statistics drawn from sources to which they have no access. They know how it affects them likely, but what can the farmer of Nebraska get up and tell you about the financial condition of these railroads? It is out of the question to suppose that the man who has a grievance at a particular place, in order to convince you of this grievance and obtain relief, has got to come up here and go into a scientific dissertation on the relation of the Government to railway corporations.

Auditor Benton: He does n't have to come up here. How was it with the Stromsberg elevator case? It was not necessary for them to come. They simply filed a complaint and found relief. What do we find here to-day? Do we find a farmer? No, we find an attorney from Lincoln.

Mr. Dawes: I am free to say that the members of this State Board of Transportation, the most of them, have been elected upon platforms demanding the reduction of local rates in this State, and it is a duty they owe the people which they have outrageously neglected.

Mr. Holdredge: Where are the people?

Mr. Dawes: I think you will find out where the people are, in the course of time. I tell you, gentlemen of the Board of Transportation, that the refusal of this Board to regulate rates is a refusal on their part to uphold the interests of the people of Nebraska, and when I urge upon you the necessity of a reduction as against outside competing points, I simply urge upon you a duty as apparent as the sun is in daytime. If this State Board of Transportation will do its duty in this matter, and make its investigation

as it ought to make it, it would be satisfied, as every investigating man has been satisfied, that our local rates are too high.

I will say to you, Mr. Auditor Benton, that it is a good deal better for you to make this investigation right here at home than it is riding in special cars to the Pacific Coast at the expense of the railroads.

Auditor Benton: I guess you would ride, too, if you had the chance.

Mr. Dawes: Not if I were drawing a salary as a state officer, and a member of the Board of Transportation and was paid by the people to stay at home, and protect their interests, and do my duty.

Mr. Kelley: I would like to have you state to the Board what rule you would recommend them to adopt in the establishment of a rate sheet for Nebraska having reference to the value of the road, the revenue, and the business of the State.

Mr. Dawes: You know well enough when you ask that question that it is impossible to give a short answer to it. I have been trying to get started into a little statement of what I believe the Board of Transportation should look into in determining the rates of Nebraska as regards the revenue of the road and the cost of the road. As I stated before, I believe that the dividing of the net earnings of the road per mile by the cost per mile gives a result which is arbitrary and which does not measure the profits even on the watered stock of the railroad company. I hold that a local rate reduction involves these questions: What has the stock cost which will be affected by the reduction, and what, then, is the ratio of stock earnings to stock cost? Will a local rate reduction such as will do justice to interior Nebraska reduce stock earnings to an unreasonably low figure?

Since the bondholder receives his interest before the stockholder receives his dividend, the bondholder is not primarily affected by a reduction, and the relation of the stock cost to stock earnings is the true basis of investigation and argument.

Attorney-General Hastings: What do you mean by "stock cost"?

Mr. Dawes: It is what the stockholders put into the road. I am not here to say that they should earn only 8 or 9 or 10 per cent, or even more on stock cost, but they earn, as I think I showed last winter, considering the years 1883 to 1889 inclusive, about 22 per cent annually on the intrinsic value of the stock. I think I showed that the Chicago, Burlington & Quincy Railway, at least, could justly stand a reduction in local rates, admitting, merely for the sake of argument, that reduced rates mean reduced net earnings.

Mr. Holdredge: I beg your pardon, you did not show it.

Mr. Dawes: I have your corrections that you sent to Professor Warner and which were published in the "Political Science Quarterly" for March. If the mistake alleged to have been made is the one you endeavored to point out to the Professor, I will answer it. In the written report which the Chicago, Burlington & Quincy Railroad Company made to the State Board of Transportation they make this statement: That on the road in Nebraska there is outstanding $40,515,830.82 in first mortgage bonds. That is the statement you make in writing here to the State Board of Transportation. You have realized in cash proceeds from the sale of United States and state land grants $8,452,-203.01, and from the sale of donated municipal and county bonds, $2,372,800; these three sums added together amount to $51,340,833.83. In Mr. Holdredge's sworn statement to the Board of Transportation — it may not be over Mr. Holdredge's signature, but it is the sworn statement made

by the Chicago, Burlington & Quincy Railroad Company, — he gives the cost of the Chicago, Burlington & Quincy road in Nebraska, including cost of shops, betterments, and the largest part of the equipment at $50,010,263.66, which is over $1,300,000 less than the company received from the sale of first mortgage bonds, land grants and municipal bonds.

Now, let me give you the results I have reached from a careful study of the reports of the Chicago, Burlington & Quincy Railway, in Nebraska. [Reading.] Taking the year 1887, which is a fair average year for earnings, considering the years 1883 to 1890, inclusive, and the earnings upon the intrinsic value of the stock amounted to $1,341.45 per mile of Nebraska road, after bond interest had been paid. This intrinsic value of stock is found by pro-rating the land grants and municipal bonds on the mileage in 1887, and amounts to $6075 per mile, on which sum these earnings of $1341.45 per mile amounts to 22 per cent per annum.

Auditor Benton: Do you mean to say that the road cost but $6000 and something per mile?

Mr. Dawes: No, sir; but taking out that part of cost paid in from the proceeds of the sale of the first mortgage bonds it left still $6075, the amount paid in, in one sense, by the stockholders. They did not actually pay it in, but they got it out of the sale of donated land grants and municipal bonds which were given them through the generosity of the people of Nebraska.

Mr. Holdredge: Did Nebraska give the $8,000,000 in United States land grants?

Mr. Dawes: No, sir; these Nebraska people, and the United States together; the people of the United States gave a portion of it, and the people of the State gave the other, but the people gave it — not the stockholders. The question is simply this: Where do the equities lie as between

the people who now hold that stock and the people of the State of Nebraska? In the New York "Post" of April 22, along with a very extended criticism of this very policy of the Chicago, Burlington & Quincy Railroad, in running out its unproductive lines here, some gentleman, in answer to the argument I made before the Senate Committee on Railroads, goes to work and gives the number of women, the number of trustees for eleemosynary institutions, and guardians for minors, who own stock in the road, and then, admitting for the sake of argument that my figures are correct, maintains that these innocent stockholders have an equitable right to insist upon the maintenance of present freight charges if necessary to give them dividends upon the cost of the stock to them. I deny that the maintenance of the freight charges is necessary to keep the earnings of the road up, and claim that the building-up of local business under equitable rates will increase their dividends.

Yet I maintain, as between their equities and the equities of Nebraska citizens who have given such generous donations to these railroads, that the equities of the people of this State are greater than the equities of these stockholders. And I tell you, the moment you assume that, by dividing the net earnings of the road by the cost of the road, you are going to get the measure of profits of the road, you put yourself from the proper consideration of this subject.

Auditor Benton: According to your argument, you maintain that the road cost them nothing?

Mr. Dawes: I maintain very nearly that thing. Of course, these things can never be arrived at exactly unless we have the full set of reports from the date of the organization to the present day. I have shown that from 1885 not a cent has been received from the stockholders for building the road, but that the cost of building the extension has been derived wholly from the sale of first mortgage bonds. Now,

considering the road as it existed prior to December 31, 1885, and taking the amount of bonds issued on that, and adding in the municipal and county bonds and the land grant, you have more than their sworn cost per mile of road in Nebraska.

I guess that will be all that I have to say on this question, but if this Board contemplates the reduction of the local rates, I ask that you consider the local rates with reference to the rates from outside points to the State of Nebraska, and in some way lower the rates so that these injustices which I have mentioned may be righted, and so that, however small the shipments may be at first, interior Nebraska in the home markets of the State may have a fair chance as against outside competing points.

THE OUTLOOK FOR CURRENCY REFORM

(*The Forum, October, 1899*)

After several years of discussion by the public and by congressional committees, the currency question in the next session of Congress will be considered, for the first time during this Administration, by a House and Senate both controlled by the Republican Party, which, in 1896, declared itself for sound governmental money and the gold standard.

The time which has elapsed between the election of 1896 and the control of the United States Senate by the Republicans enables that party to approach the solution of the problem with a greater unanimity of opinion than has been possible heretofore. Prior to the year 1893 it had not been generally recognized by our people that our present monetary system had an inherent weakness, the development of which was dependent only upon a commercial panic and deficient governmental revenues. The panic of that year and concurrent revenue deficiency furnished the needed demonstration of the existing defect. The two chief causes of this weakness were as follows: First, the disproportion existing between demand governmental currency liabilities and the gold in the Treasury with which to redeem them; and second, the fact that when these demand liabilities were once redeemed in gold, they could be used again in the payment of governmental expenses. This latter fact was responsible for what was known as the "endless chain"; for the public, coming again into the possession of these demand currency liabilities, again called for their redemption in gold.

It was dissatisfaction with this condition of affairs, rather than with our present system of banking and bank currency, which found expression in the popular discussions of sound money prior to the election of 1896. Immediately after the election several radical, and somewhat experimental, plans of currency reform were earnestly pressed upon the attention of the country by certain students of finance, and, for a time, received general discussion and consideration. These plans provided in effect for the assumption, by the national banks of the country, of the burden of the gold redemption of outstanding governmental currency obligations, in return for the privilege of issuing their own notes to fill the vacuum caused by the eventual retirement of these currency obligations. These bank-notes were to depend for their chief security on a first lien upon the commercial assets of the issuing banks, and were not to be protected by a trust deposit of government bonds as security, as under our present system.

Matured discussion, however, revealed the fact that agreement upon any one of those plans, differing as they did in fundamental particulars, was impossible even among those who believed in the principles underlying them; and they did not seem to be received with favor by the general public.

In his first message to Congress the President of the United States, recognizing the causes of the existing dangers to our currency system, made a recommendation designed to correct these evils rather than to introduce marked changes in the system. His recommendation was as follows:—

> That when any of the United States notes are presented for redemption in gold, and are redeemed in gold, such notes shall be kept and set apart, and only paid out in exchange for gold. This is an obvious duty.

At the time of his second annual message to Congress the financial operations of the Treasury — incident to the Spanish War and the growing confidence of the public in the stability of the gold standard, which led them freely to deposit gold in the Treasury in exchange for notes — had lessened the disproportion between the demand-currency liabilities of the Government and the gold in the Treasury to redeem them. For the accomplishment of this result surplus governmental revenues, at the time of the President's former message, had seemed essential; and after pointing out, therefore, in his message, that the proportion of net gold holdings to demand-currency liabilities of the Treasury, November 1, 1898, was 25.35 per cent as compared with 16.96 per cent on November 1, 1897, he made a recommendation which marked an advance upon the one of his former message. This advance was made possible by the improvement in the condition of the Treasury. He states: —

> In my judgment the present condition of the Treasury amply justifies the immediate enactment of the legislation recommended one year ago under which a portion of the gold holdings should be placed in a trust fund, from which greenbacks should be redeemed upon presentation, but when once redeemed should not thereafter be paid out except for gold.

This plan of the President has commended itself, during the past year, to the best judgment of a constantly increasing number, until there now seems to be an almost unanimous consensus of opinion among the friends of sound money that it will properly be the foundation of the coming legislative reform of the currency. If Congress does nothing more than enact a law declaring the standard to be gold, and providing for its security and safety by this plan of the President, it will have carried into effect one of the greatest financial reforms of our history.

The importance of the separation of the gold reserve, which is the foundation of our currency, from the general fund of the Treasury is clearly indicated by the following statement of the Treasury conditions preceding the first sale of government bonds to replenish the gold reserve in February, 1894. It is to be remembered, in connection with this statement, that the gold paid into the New York Clearing-House was in settlement of the balance against the Government, and to be attributed to the excess of governmental expenditures over receipts.

Month	*Net cash balance*	*Net gold in Treasury*	*Notes redeemed in gold*	*Gold paid into New York Clearing-House*
1893 —				
January	$125,265,067	$108,181,713	$11,496,617	—
February	124,126,089	103,284,219	13,828,664	—
March	125,630,728	106,892,224	4,926,453	—
April	121,482,903	97,011,330	20,051,910	—
May	121,565,155	95,048,641	16,547,849	—
June	122,462,290	95,485,414	4,250,651	—
July	117,887,566	99,202,933	1,036,015	$4,940,000
August	107,283,910	96,009,123	2,348,222	2,475,000
September	106,875,632	93,582,172	340,727	15,395,000
October	102,294,291	84,384,863	695,392	27,645,000
November	95,199,616	82,959,049	516,372	15,150,000
December	90,375,555	80,891,600	517,418	13,570,000
1894 —				
January	84,082,098	65,650,175	356,356	19,015,000

From this statement it will be noted that the gold reserve in April, 1893, was reduced below the $100,000,000 limit, which has, for various reasons, come to be considered, both by the public mind and in Treasury circles, as the minimum amount to which the reserve can fall consistent with the safety of our currency system. It will be noted, also, that between this date and February, 1894, at which time bonds were sold to replenish the gold reserve, there

had been gold disbursements from the Treasury for government expenses of $98,190,000, as compared with gold redemptions of currency obligations, during the same period, of $46,660,912. In other words, the first sale of bonds to replenish the gold reserve was due more to deficient governmental revenues than to the demand for redemption in gold of currency liabilities. During that period the whole financial and business community kept its eye on the dwindling reserve, upon whose condition depended the integrity of our monetary system, and which was being constantly drawn upon, not simply for its primary purpose of redeeming notes, but under the pressure of deficient revenues for governmental expenses as well. The public mind was again impressed with the acuteness of the situation by the first sale of government bonds to replenish the reserves, which called additional attention to the disproportion existing between the reserve and currency obligations; thus stimulating the additional demand for redemption which afterward occurred.

With the trust fund recommended by the President in existence, a deficiency in governmental revenues cannot eat away the foundation of our national currency; though it is true that when governmental revenues are deficient, nothing can relieve the Government of the necessity of borrowing, unless revenues are increased by changed industrial conditions or new legislation. The passing into law of the President's recommendation cannot alter that fact. But it will have the effect of emphasizing the necessity of maintaining, by proper revenue laws, a closer relation between the current revenues and expenses of Government, and of preventing the loss of credit to our monetary system, resulting from borrowing for expenses the reserve which should be pledged to the specific purpose of protecting the currency.

The practical effect of the inability of the Secretary of the Treasury to use the trust gold fund for current expenditures will be to require the speedier adjustment by Congress of revenue laws to meet a given emergency. When this trust fund is in existence, if borrowing becomes necessary, before proper revenue legislation can be had, the Government will borrow money under more favorable conditions than heretofore. When the Government concurrently borrows not only money to pay expenses, but gold to protect its currency, its credit is subjected to the severest strain, as evidenced by the high rates of interest paid on the governmental loans following the year 1893, when it was reduced to this situation.

The Government may be reduced to this extremity hereafter, even with this fund in existence; but the likelihood is made much more remote. After this fund has been established, the preservation of the gold standard by the direct act of the President and the Secretary of the Treasury, which we witnessed several times during the years from 1893 to 1896, would not be absolutely necessary until the fund should have been exhausted by the redemption from it of an equal amount of currency. Its replenishment would then be necessary, either from surplus revenues or from borrowing. At present the gold in the Treasury can be drawn on, both for currency redemption and for government expenses; and, under the laws of trade, these demands are almost sure to be made at the same time.

A great merit of the President's recommendation is its simplicity. The people understand it. They understand that it cannot result in contraction of the currency; for gold must come out of the fund into circulation when a greenback goes in. They see in it a relief from the "endless chain," which has caused such trouble heretofore, and a safe

protection to the gold standard, which forms the present basis of business.

The chief steps in currency reform which the friends of sound money hope for and expect from the next Congress are: (1) The declaration for the gold standard; and (2) the enactment of this Presidential recommendation. The latter, while it does not involve a change in the currency now in circulation, provides for its safety; so that if a panic does occur again, it will not be because of distrust in the Government's currency, nor will it be able materially to injure the credit of that currency.

THE RUFUS F. DAWES HOTEL

(*Chicago Tribune, December 13, 1914*)

The purpose of the Rufus F. Dawes Hotel, as operated by Mr. Henry M. Dawes and myself, is to provide men with accommodations at reasonable figures. It is no different from any other hotel except that its charges are lower.

It assumes that its guests are gentlemen and appreciative of gentlemanly treatment. The fact that in the operation of the hotel a small deficit results is not made the excuse by the management for any different treatment of guests than is customary in other first-class hotels. However sympathetic with religious, educational, and charitable work I might be, — and I am so, — if I went as a paying guest to a first-class hotel and found the management solicitous as to my mental state, religious beliefs, or daily occupation, and insisting upon my listening to unsolicited advice or religious or educational addresses, I would regard it as an insult and as an assumption of inferiority on my part and superiority on theirs unjustified by the nature of our relationship.

Accordingly, the Rufus F. Dawes Hotel management, proceeding on the idea that its guests are not to be considered as a class or a species, or anything but American citizens, has succeeded beyond our best expectations. Instead of a deficit of eight or ten thousand dollars per year as we expected, the deficit for the first year's operation, when about 179,000 men were lodged and 59,000 fed, and employment found for 1570, amounts to only $1800, including a liberal estimated depreciation, at the rate of one cent per man. This does not include, of course, any return on the cost of the hotel which was erected in my son's memory.

There are no rules in the hotel different from any other first-class hotel save those relating to sanitation. I make the assertion that there is no hotel in the country, accommodating anything like an equal number of guests, that has as little trouble with its patrons as ourselves. In fact, we have no trouble at all.

INVESTIGATIONS AND RECOMMENDATIONS RELATIVE TO BANK-NOTE CURRENCY

(From Report as Comptroller of the Currency, 1898)

Section 333 of the Revised Statutes of the United States provides that the Comptroller of the Currency in his annual report to Congress shall suggest "any amendment to the laws relative to banking by which the system may be improved and the security of the holders of its notes and other credits may be increased."

In suggesting some general amendments to the National Banking Law at this time, it is not the purpose of the Comptroller to review in detail the plans and propositions for the modification of our currency and banking systems which are now, and for some time have been, the subject of economic and general discussion throughout the country; but a reference to them and to the principles underlying them is deemed imperative in view of the fact that in their present form they seem to ignore the interests of bank depositors, with whose protection the Comptroller is particularly charged.

The panic of 1893 having directed attention toward the dangers to the general commercial system, resulting from the disproportion between demand currency liabilities of the Government, payable in gold, and the gold held in reserve by the Government for their redemption, as well as to the inelasticity of the present bank-note currency, the plans providing for a modification of the banking and currency systems which are now most discussed, may be considered as based upon the following propositions: —

First. That the disproportion between outstanding currency liabilities of the Government payable in gold, and the gold held for their redemption, should be lessened by a contraction in the amount of the demand-currency liabilities.

Second. That the void in circulation, caused by such contraction, should be filled by an extension of the circulation of national banks, which circulation, redeemable in gold, is ultimately to depend for its chief security upon a first lien on the commercial assets of the issuing banks.

The more prominent of these plans, which may be considered as embodying in the ablest forms the general principles necessarily involved in a system of bank-note issues secured by the general assets of banks, look to the ultimate displacement of government-credit money with bank-credit money, the latter eventually being secured by a first lien upon the assets of the issuing banks, and by a five per cent redemption fund created in the first instance by taxation upon solvent issuing banks and thus maintained.

Upon any deficiency occurring in such contribution to the guaranty fund, due to a failure to collect from the assets of the insolvent bank a sufficient amount to redeem its notes in full, resort is to be had to additional taxation upon solvent banks issuing circulation to supply the deficiency, one plan providing, however, that such tax shall not exceed one per cent on the amount of their note issues per year.

The assumptions which seem to underlie these plans are:

First. That unless we are to have a currency contraction, some radical extension of bank-note issues is absolutely necessary to the securing of the proper adjustment of government-currency liabilities to its gold reserve, by which adjustment the greater safety of the gold standard is subserved; and —

Second. That through this radical extension and change

in the present form of bank-note issues alone is elasticity to be secured in our currency.

As opposed to these propositions, and in connection with the data given and views expressed hereinafter, relative to changes in the present banking laws, the Comptroller desires to state that his suggestions are based upon the following assumptions: —

First. That there is existing no such condition of the United States finances, revenues, or credit as to justify the proposition that the shifting of the burden of gold redemption of outstanding currency from the Government to the banks is so important as to necessitate of itself radical changes and concessions in national banking laws relative to the issue of notes, which changes and concessions would not be considered wise if the interests of the community, irrespective of government finances, were alone considered.

Second. That if, from considerations of general public policy, irrespective of governmental finances, bank-note issues secured only by commercial assets of banks seem unwise, the resources, credit, and financial condition of the United States are such that, by means of revenue laws and other amendments to law suggested by the President in his last annual message, a safer ratio between its outstanding circulation and gold reserve can be attained, the stability of the present gold standard insured, and the currency maintained upon a sound basis without contraction.

It must be remembered, in connection with the discussion of changes in the present banking laws, that by far the most important function of the national banks is that of an acting middleman between the depositors and borrowers of a community, and that its note-issuing functions are secondary in importance and usefulness under the present or any proposed system of bank-note issues.

It is especially important, therefore, in proposing changes

in the laws governing the note-issuing powers of national banks, that the effects of such changes upon the relation of the bank to its depositors and borrowers be carefully studied.

It is the belief of the Comptroller that the proposed preference of the note-holder over the depositor, which is a fundamental basis of all these plans, is not only inherently wrong and unjustified by any grounds of public policy, but that its practical effect upon the present relation of depositors to banks in the smaller communities of the United States would be so revolutionary as to bring about the most injurious conditions in the general business of the country.[1]

The essential similarity between the liability of a solvent bank, expressed by a deposit credit and by a bank-note, is generally recognized and emphasized by those advocating these plans.

In view of this recognized similarity before the insolvency of a bank, the radical dissimilarity in their respective treatment when insolvency occurs is justified by a course of reasoning which is believed to be fallacious.

It may be as sound in principle for a bank to issue bank-notes as to take deposits, when the two classes of creditors stand upon the same basis in relation to the assets of the bank to which they have each contributed, but it is not as sound in principle when, in case of insolvency, the creditor who claims under a note must be paid in full, before the creditor who claims under a deposit can receive anything.

Under these plans the dollar of the depositor, and the dollar of the note-holder, side by side, would be invested by

[1] For further explanation of the difference between the "first lien" provided for in the present law authorizing the issue of bond-secured national bank-note circulation and the "first lien" suggested by "asset-currency" advocates, see pp. 305–307.

the officers in the assets of the solvent bank, since it is proposed to change the law under which at the present time the note-holder's dollar from the first must be invested in government bonds, to be held separately in trust for his protection.

Side by side, these dollars of depositors and note-holders would be redeemed on demand without question by the solvent banks under the proposed system. Why, then, should the dollar claim of the depositor be paid nothing out of the assets of an insolvent bank until and unless the dollar claim of the note-holder is paid in full?

In our judgment there is no relevant answer to this proposition save one, based upon grounds of general public policy, which admits the injustice to the depositor class, but justifies it by claiming the necessity, for the Government and the community, of additional and different circulation than that we have at present.

The claim that a difference so radical and fundamental as this in the treatment of two classes of creditors can be justified by the fact that the depositor generally deals directly with the bank and has the opportunity to inform himself as to the trustworthiness of it, whereas the notes are issued for general circulation and pass into the hands of those distant from the bank, and therefore unable to form an opinion as to its strength, is not one which will commend itself generally to practical men.

Experience demonstrates that in the banking business the detection of untrustworthiness in banks is, as a matter of fact, not one of the duties with which the depositor, as a general rule, charges himself. He has come to leave that to the officials of the National and State Governments; and while it may be true that as a class he ought to exercise greater discretion in his selection of banks for his deposits, it is equally true that as a class he has come to have that

confidence in the system which has made him comparatively indifferent under normal conditions to this duty.

Again, he is often compelled, by the very nature of his business, to be dependent upon the agency of banks at a distance in handling his funds, in which case he, like the note-holder, could not investigate if he so desired.

Certainly the fundamental right to prefer, in the distribution of the assets of an insolvent bank, the note-holding class to the depositor class, should rest upon some broader ground than the assumed neglect of the depositor class to acquaint itself with the nature of the private business and internal management of banking institutions, whose proper supervision the National Government, as the representative of the depositors and the public, has taken upon itself.

The lien given to the note-holder under the present system, first upon the government bonds deposited expressly in trust as security for said notes, before other assets of the bank can be reached, is far different in practical effect from the general and unqualified priority in lien upon the assets of a bank proposed in these plans.

The priority of lien of the note-holders under the present system over the depositor is first upon the United States bonds deposited in trust for his benefit, and only secondarily, in case of deficiency in bonded security, upon the general assets of the bank. In practical operation this security gives the notes the unquestioned credit necessary to enable them to circulate, and at the same time does not, as a matter of fact, interfere with the rights of the depositor in case of insolvency, since the bonds at public sale bring the amount of the notes, and return to the insolvent bank for the benefit of general creditors practically all the equity originally invested in them.

This being the practical effect of the present bank-note

system, it cannot rightfully be considered as justifying any assumption that in its theory the rights of note-holders are considered as more sacred in themselves than the rights of depositors.

Under the present system the relation of the note issues of a national bank to its general business is somewhat the same as the relation of the issue and redemption department of the Bank of England to its commercial department. They are in reality almost entirely separate, and so intended to be. If under any new system the note-holder and the deposit-holder come into similar relations to the bank, their rights against the common assets, to which their money has alike contributed, should be equally sacred.

If, then, there is no inherent moral right to establish a preference of the note-holding creditors of an insolvent bank, as against the deposit-holding creditors, in the distribution of the assets of an insolvent bank, the question arises: does public policy demand, in the interest of the common good, that such a preference should be given in order to establish a bank-note system which will give banks such a profit that to secure it they will relieve the United States Treasury of the burden of gold redemption, and afford the country a circulating medium having alleged advantages over that now in use?

In order to determine this question, actual data at command must be examined critically in order to understand the nature and extent of the wrong done the depositor class by this preference, and the consequent effects of this wrong upon the community at large and its business.

Statistics have been quoted to show that the burdens which will be imposed upon depositors by such a preference will be light; but the force of these figures, so far as their being a guide to the probable economic effect of the proposed laws is concerned, is immediately lost when it is

noted that in them no distinction is made between the rate of loss of depositors in different communities, and between the rate of loss of the depositor in the small banks and that of the depositor in large banks. They err in assuming that the percentage of loss will be ratably distributed.

The Comptroller presents herewith a series of tables which indicate more exactly upon what class of depositors the real burden of this preference will fall with almost crushing weight. These tables give approximately the loss which under the proposed plan would result to depositors from the preference of note-holders over deposit-holders in case of insolvency, based upon the showing made by the 195 insolvent national banks whose affairs have been finally closed during the existence of the system.

For the purpose of these tables it is assumed, in the case of each class of insolvent banks, that their officers would have made the same proportionate losses upon the commercial assets in which the notes issued were invested that they actually did upon the assets in which the deposits and capital of the banks were invested. To the good assets of these different classes of insolvent national banks, as shown by the records of this office, has been added the amount which would have been realized from the unsecured notes issued, if loaned or invested with the same rate of loss as was made upon the money invested in the actual assets.

From the assets, thus increased, there is subtracted 95 per cent of the preferred note issues proposed, to wit, the par of the notes less the 5 per cent redemption fund held by the Government, which leaves the amount which would then go to the depositors and other unsecured creditors. This amount, in terms of percentage of their total claims, is then compared with the percentage of their claims actually received, and the loss which would be caused by the preference is thus approximately disclosed in the difference.

The tables give these results bearing upon the interests of depositors in banks according to geographical sections, and according to the following classifications of capital: $50,000, $100,000, $200,000, $300,000, $500,000, and banks with a capital exceeding $500,000.

As under the proposed plans circulation, eventually secured only by bank assets, might be taken out in different amounts, these amounts have been assumed to be 60 per cent, 80 per cent, and 100 per cent of the capital of the bank, showing what the loss to depositors would approximately be in each of these instances.

As illustrating the method of preparing the tables, we will take the case of a bank of $100,000 capital which has failed, and upon final liquidation has paid its depositors 50 per cent upon claims of $200,000, to wit, the sum of $100,000. Under the plan proposed assume this bank had issued in notes, secured by a first lien upon its assets, an amount equal to 60 per cent of its capital, to wit, the sum of $60,000.

Since, in investing $300,000, to wit, $100,000 capital and $200,000 deposits, it has lost the sum of $200,000 and has remaining but $100,000, to wit, one third of its original assets, we assume that of the $57,000 circulation which the bank had to invest in commercial assets, to wit, the $60,000 circulation less $3000, representing the 5 per cent redemption fund held by the Government, it would have lost the same proportion, and have left of that investment but one third in good assets, to wit, $19,000. We add, therefore, to the $100,000 actually paid depositors the sum of $19,000, giving $119,000 for distribution between depositors and note-holders. But, as under these plans, the note-holders are preferred for the full amount of their $60,000 notes, of which but $3000 is in the redemption fund, there must be subtracted from this $119,000 the sum of $57,000, leaving

for the depositors only $62,000, as against $100,000 which they received under the present system, without any burden of note preferences upon common assets. As $62,000 is but 31 per cent of their total claims of $200,000, upon which under the present system they receive $100,000 dividends, or 50 per cent, it follows that their loss, directly traceable to the preference, would amount to 19 per cent of the face of their deposits.

Of necessity these tables, based as they are upon hypothesis, can be considered only as approximately indicating the losses which depositors may expect; but that they furnish a conservative estimate of these losses is believed. They do not take into consideration the possibility of unusual losses in general bank assets, through an inflation of the currency and resultant speculation brought about by an abnormal increase in the number of national banks. This increase might be caused by private and state banks and trust companies entering the system for the sake of the profits arising from the currency privilege. These plans provide for a circulation secured by the commercial assets of banks up to a limit of 100 per cent of the capital of the bank, with an increasing tax as the limit is reached. In this connection it is well to remember that an insolvent bank, as a general rule, will have made every effort before closing its doors to avail itself of the currency privilege to the full limit allowed by law in the effort to avert suspension of payments.

Of the 195 national banks which have been finally liquidated, these tables show in reference to the rate of loss experienced in investments: —

That 10 banks in the New England States, with combined capital of $2,571,300, have paid cash dividends of $9,626,055 on $11,508,426 of claims proved, or 83.64 per cent. These banks had total nominal assets of $17,195,440, of which $10,207,324 were collected in cash or by offsets or

otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 59.36 per cent.

That 50 banks in the Eastern States, with a combined capital of $9,155,600, have paid cash dividends of $14,469,-195 on $18,399,239 of claims proved, or 78.64 per cent. These banks had total nominal assets of $31,135,897, of which $17,260,498 were collected in cash or by offsets or otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 55.44 per cent.

That 33 banks in the Southern States, with a combined capital of $4,775,000, have paid cash dividends of $6,611,-266 on $10,111,715 of claims proved, or 65.38 per cent. These banks had total nominal assets of $15,263,365, of which $6,808,364 were collected in cash or by offsets or otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 44.61 per cent.

That 44 banks in the Middle States, with a combined capital of $9,122,000, have paid cash dividends of $7,996,-983 on $11,167,256 of claims proved, or 71.61 per cent. These banks had total nominal assets of $24,153,212, of which $11,796,392 were collected in cash or by offsets or otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 48.84 per cent.

That 44 banks in the Western States, with a combined capital of $3,382,000 have paid cash dividends of $2,195,-061 on $3,552,511 of claims proved, or 61.79 per cent. These banks had total nominal assets of $9,308,471, of which $3,083,292 were collected in cash or by offsets or otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 33.12 per cent.

That 14 banks in the Pacific States, with a combined capital of $1,725,000, have paid cash dividends of $1,644,-705 on $2,628,811 of claims proved, or 62.56 per cent. These banks had total nominal assets of $5,687,777, of

which $2,538,605 were collected in cash or by offsets or otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 44.63 per cent.

That the total of 195 banks, with a combined capital of $30,730,900, have paid cash dividends of $42,543,265 on $57,367,958 of claims proved, or 74.16 per cent. These banks had total nominal assets of $102,744,162, of which $51,694,475 were collected in cash or by offsets or otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 50.31 per cent.

Of the 195 national banks which have been finally liquidated, these tables further show in reference to the rate of loss experienced in investments: —

That 66 banks of $50,000 capital each, and total capital of $3,280,000, have paid cash dividends of $2,859,618 on $4,424,178 of claims proved, or 64.64 per cent. These banks had total nominal assets of $8,733,255, of which $7,584,130 were collected in cash or by offsets or otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 39.68 per cent.

That 61 banks of $100,000 capital each, and total capital of $5,634,000, have paid cash dividends of $6,262,487 on $9,891,367 of claims proved, or 63.31 per cent. These banks had total nominal assets of $18,034,198, of which $7,584,130 were collected in cash or by offsets or otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 42.05 per cent.

That a total of the above 127 banks, having a combined capital of $8,914,000, have paid cash dividends of $9,122,-105 on $14,315,545 of claims proved, or 63.72 per cent. These banks had total nominal assets of $26,767,453, of which $11,049,464 were collected in cash or by offsets or otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 41.28 per cent.

That 37 banks of $200,000 capital each, and total capital of $6,355,600, have paid cash dividends of $7,321,036 on $9,211,748 of claims proved or 79.47 per cent. These banks had total nominal assets of $17,748,526, of which $7,895,-311 were collected in cash or by offsets or otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 44.48 per cent.

That 16 banks of $300,000 capital each, and total capital of $4,350,000, have paid cash dividends of $6,866,897 on $9,042,532 of claims proved, or 75.94 per cent. These banks had total nominal assets of $16,369,761, of which $8,629,562 were collected in cash or by offsets or otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 52.72 per cent.

That 9 banks of $500,000 capital each, and total capital of $4,300,000, have paid cash dividends of $12,441,201 on $16,558,203 on claims proved, or 75.13 per cent. These banks had total nominal assets of $23,402,935, of which $15,321,625 were collected in cash or by offsets or otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 65.47 per cent.

That 6 banks of $500,000 capital each, or over, and total capital of $6,811,300, have paid cash dividends of $6,792,026 on $8,239,930 of claims proved, or 82.43 per cent. These banks had total nominal assets of $18,455,587, of which $8,798,513 were collected in cash or by offsets or otherwise, making the proportion of valuable assets to nominal assets, upon final liquidation, 47.67 per cent.

That the total of 68 banks with capital of $200,000 or over each, and total capital of $21,816,900, have paid cash dividends of $33,421,160 on $43,452,413 of claims proved, or 77.62 per cent. These banks had total nominal assets of $75,976,709, of which $40,645,011 were collected in cash or by offsets or otherwise, making the proportion of valu-

able assets to nominal assets, upon final liquidation, 53.50 per cent.

These tables further show that the depositors of the 10 insolvent national banks, having a combined capital of $2,571,300 and nominal assets of $17,195,400, with cash dividends paid to depositors of $9,626,055, or 83.64 per cent, situated in the New England States of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut, would have lost by preference of the note-holders in case of an issue of uncovered notes equal to 100 per cent of their capital, 8.62 per cent of their deposits more than under the present system, or 10.30 per cent of their dividends; in case of note issues of 80 per cent of their capital, 6.90 per cent more, or 8.25 per cent of their dividends; and in case of circulation of 60 per cent of their capital, 5.17 per cent more, or 6.18 per cent of their dividends.

The depositors of 50 insolvent banks, having a combined capital of $9,155,600, nominal assets of $31,135,897, with cash dividends paid to depositors of $14,469,195, or 78.74 per cent, situated in the Eastern States of New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia, would have lost by preference of the note-holders with a 100 per cent note issue, 21.06 per cent more than under the present system, or 26.78 per cent of their dividends; with an 80 per cent note issue, 16.85 per cent more, or 21.42 per cent of their dividends; and with a 60 per cent note issue, 12.64 per cent more, or 16.07 per cent of their dividends.

The depositors of 33 insolvent banks, having a combined capital of $4,775,000, nominal assets of $15,263,635, and with cash dividends paid to depositors of $6,611,266, or 65.38 per cent, situated in the Southern States of Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Arkansas, Texas,

Kentucky, and Tennessee, would have lost by preference of the note-holders with a 100 per cent note issue, 24.85 per cent more than under the present system, or 38 per cent of their dividends; with an 80 per cent note issue, 19.88 per cent more, or 30.41 per cent of their dividends; and with a 60 per cent note issue, 14.91 per cent more, or 22.80 per cent of their dividends.

The depositors of 44 insolvent banks, having a combined capital of $9,122,000, nominal assets of $24,153,212, and with cash dividends paid to depositors of $7,996,983, or 71.61 per cent, situated in the Middle States of Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri, would have lost by preference of the note-holders, with a 100 per cent note issue, 39.70 per cent more than under the present system, or 55.44 per cent of their dividends; with an 80 per cent note issue, 31.76 per cent more, or 44.35 per cent of their dividends; and with a 60 per cent note issue, 28.32 per cent more, or 33.26 per cent of their dividends.

The depositors of 44 insolvent banks, having a combined capital of $3,382,000, nominal assets of $9,308,471, and with cash dividends paid to depositors of $2,195,061, or 61.79 per cent, situated in the Western States of North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, New Mexico, Oklahoma, and Indian Territory, would have lost by preference of note-holders, with a 100 per cent note issue, 60.49 per cent more than under the present system, or 97.89 per cent of their dividends (being their total dividends, except 1.30 per cent of par value of claim); with an 80 per cent note issue, 48.39 per cent more, or 78.31 per cent of their dividends; and with a 60 per cent note issue, 36.29 per cent more, or 58.73 per cent of their dividends.

The depositors of 14 insolvent banks, having a combined

capital of $1,725,000, nominal assets of $5,687,777, with cash dividends paid to depositors of $1,644,705, or 62.56 per cent, situated in the Pacific States of Washington, Oregon, California, Idaho, Utah, Nevada, and Arizona, would have lost by preference of the note-holders, with a 100 per cent note issue, 34.51 per cent more than under the present system, or 55.16 per cent of their dividends; with an 80 per cent note issue, 27.61 per cent more, or 44.13 per cent of their dividends; with a 60 per cent note issue, 20.71 per cent more, or 33.10 per cent of their dividends.

Thus it will be seen that, as compared with the rate of loss to the New England depositor, through the preference of the note-holders in cases of insolvency, the issues of uncovered notes being either 100 per cent, 80 per cent, or 60 per cent of the capital, the depositor in the Eastern States will lose at a rate of nearly two and one half times as great; the depositor in the Southern States at a rate nearly three times as great; the depositor in the Pacific States at a rate four times as great; the depositor in the Middle States at a rate over four and one half times as great; and the almost obliterated depositor in the Western States at a rate over seven times as great.

These tables also show that the depositors of the 66 insolvent banks of $50,000 capital, having a combined capital of $3,280,000,[1] nominal assets of $8,733,255, with cash dividends paid to depositors of $2,859,618, or 64.64 per cent, would have lost by preference of the note-holders, in case of an issue of uncovered notes equal to 100 per cent of the capital, 42.49 per cent more than under the present system, or 65.73 per cent of their dividends; in the case of a note issue of 80 per cent, 33.99 per cent more, or 52.58

[1] One bank of $30,000 capital included, which failed before the full $50,000 capital required by law had been paid.

per cent of their dividends; and in case of 60 per cent note issues, 25.49 per cent more, or 39.43 per cent of their dividends.

The depositors of 61 insolvent banks, with a capital of over $50,000 and not exceeding $100,000 aggregating $5,634,000, nominal assets of $18,034,198, with cash dividends of $6,262,487, or 63.31 per cent, would have lost by preference of the note-holders, in case of an issue of uncovered notes equal to 100 per cent of the capital, 31.35 per cent more than under the present system, or 49.52 per cent of their dividends; and in case of note issue of 80 per cent, 25.08 per cent more, or 39.61 per cent of their dividends; and in case of 60 per cent note issues, 18.81 per cent more, or 29.71 per cent of their dividends.

The depositors of 37 insolvent banks, with a capital of over $100,000 and not exceeding $200,000, aggregating $6,355,600, nominal assets of $17,748,526, with cash dividends paid of $7,321,036, or 79.47 per cent, would have lost by preference of note-holders, in case of an issue of uncovered notes equal to 100 per cent of the capital, 36.39 per cent more than under the present system, or 45.79 per cent of their dividends; and in case of note issues of 80 per cent, 29.11 per cent more, or 36.63 per cent of their dividends; and in case of 60 per cent note issues, 21.83 per cent more, or 27.47 per cent of their dividends.

The depositors of 16 insolvent banks, with a capital of over $200,000 and not exceeding $300,000, aggregating $4,350,000, nominal assets of $16,369,761, with cash dividends of $6,866,897, or 75.94 per cent, would have lost by preference of the note-holders, in case of an issue of uncovered notes equal to 100 per cent of the capital, 21.61 per cent more than under the present system, or 28.46 per cent of their dividends; in case of note issues of 80 per cent, 17.29 per cent more, or 22.77 per cent of their dividends; and in case

of 60 per cent note issues, 12.96 per cent more, or 17.06 per cent of their dividends.

The depositors of 9 insolvent banks, with a capital of over $300,000, and not exceeding $500,000, aggregating $4,300,000, nominal assets of $23,402,935, with cash dividends of $12,441,201, or 75.13 per cent, would have lost by preference of the note-holders, in case of an issue of uncovered notes equal to 100 per cent of the capital, 8.51 per cent more than under the present system, or 11.33 per cent of their dividends; in case of note issues of 80 per cent, 6.81 per cent more, or 9.06 per cent of their dividends; and in case of 60 per cent note issues, 5.11 per cent more, or 6.80 per cent of their dividends.

The depositors of 6 insolvent banks, with capital exceeding $500,000, aggregating $6,811,300, nominal assets of $18,455,587, with cash dividends of $6,792,026, or 82.43 per cent, would have lost by preference of the note-holders, in case of an issue of uncovered notes equal to 100 per cent of the capital, 41.10 per cent more than under the present system, or 49.86 per cent of their dividends; in case of note issues of 80 per cent, 32.88 per cent, or 39.89 per cent of their dividends; and in case of 60 per cent note issues, 24.66 per cent more, or 29.92 per cent of their dividends.

From the tables which we have given, it is evident that from the depositors in smaller national banks of from $50,000 to $100,000 capital, and from the depositors of the newer sections of the country, the greater amount of the cost of this radical experiment in currency must be collected. Thus, upon those depositors least able to endure loss must the heaviest losses fall.

The assumption of the friends of these proposed plans, that the uncovered currency privilege will be availed of in those communities where there is now an alleged scarcity of the circulating medium, may be correct. But this is only

another statement of the fact that those banks which will most readily issue notes are in those communities where statistics show there now occurs the largest proportion of bank failures. In other words, in those communities in which bank depositors have already sustained the greatest percentage of losses, they are to be subjected to still greater losses by having their claims against an insolvent bank made subject to the prior lien of note-holders.

In cases of insolvency the records of this office show that, as a rule, those banks pay the smallest dividends to general depositors which at the time of failure have their bills receivable largely collateraled to bills payable, which they have issued for borrowed money. In effect, a bank which would issue these notes collaterals its entire assets to its note issues.

Under the laws of competition, the large city banks would gradually receive a larger proportion of deposits of the country, as the effects of the increased percentage of loss to depositors of smaller banks was perceived by the general public. The tendency to hoard money in smaller communities would also be stimulated. One of the purposes of the proposed laws, which is to enlarge the circulation in those districts where it is now scanty, would be thwarted by the ultimate effect of the laws in decreasing in rural communities the deposits, which, while at the command of the depositors, can still be loaned to borrowers and circulated in the form of checks and drafts under the safe and prescribed limits of ordinary banking.

The statistics given in the table, showing the record of insolvent banks upon the final liquidation, indicate that the safety of the depositor from the prior lien of the note-holder generally would increase as does the ratio of deposits to capital. This is due to the nature of the assets held by the insolvent banks with large deposit lines, which have

yielded larger returns proportionately upon liquidation than the assets which have been held by the smaller insolvent banks.

The measure will stimulate in still greater degree the tendency of the money of the country to flow to the great money centers, where to fewer institutions, as time and competition progress, would pass the management and control of the savings and capital of the country. We cannot agree to the wisdom of any measure which accelerates the centralization of capital in the great cities, and which, by separating in location those who lend money from the many who use it, will encourage the growth of commerce only in the form which has a tendency to crush out general business individualism. The temporary effect of such plans might be different, but this ultimate effect is inevitable.

The effect of the passage of such laws would at first be a great stimulus to the business of banking, especially in the West and South. It would probably be followed by the change from the various state banking systems of a very large number of private and state banks, which would be anxious to avail themselves of the currency privilege. The right to issue such currency would give them an advantage over banks organized under the National Banking Law as it is at present, and its effect upon the plans of those interested in the organization of new national banks would be to lessen the estimate of the amount of probable deposits to be received, which would be considered as sufficient to justify the starting of the bank.

Whether a bank could issue sixty per cent or more of its capital in notes subject only to nominal tax, which notes it could loan at ordinary commercial rates, and not be compelled to invest in low-rate government securities, as in effect under the present system, would or would not take out its quota of such notes under the law, would be deter-

mined somewhat by the status of its deposit line. If its deposit line was so large as to tax the ability of its management to loan the amounts currently entrusted to it, it might not be the policy of such a bank to take out its authorized currency, although it would be profitable for a smaller bank in the same community to do so. But throughout the West and South, and in the smaller banks of the cities throughout all the country, it may safely be assumed that the profits from the exercise of the currency privilege would at first be eagerly sought.

It is urged in behalf of these plans that they follow the bank-note systems of other countries, which have proved successful; but these arguments fail to lay hold of the fundamental differences in principle and environment of the European system of note issues from those under consideration. In the older sections of this country the note issues of banks, as provided for by these plans, would perhaps be so inconsiderable, as compared with their general business and deposits, as not to interfere materially with the usefulness of the bank in its relation to depositors and borrowers, but, as we have endeavored to show, in the newer sections of the country this would not be the case. The United States covers a vast territory, embracing every variety of climate and natural resources. These natural resources, however, are not evenly distributed, nor is the acquired wealth and banking capital of the country thus distributed.

As compared with England, Germany, France, Russia, Austria, and the older European nations, with their few great state banks and centralized business, which are the product of the evolution of centuries of financial experience and competition, there are in this country more than thirty-six hundred national banks, scattered throughout its vast domain, surrounded by the most differentiated business

and natural environments, and dealing with most dissimilar classes of customers and collaterals. The advantages of our distributed system of banks over the central government banks of Europe are such that we can well afford to recognize its disadvantages in connection with proposed currency issues.

In the bank-note issues of the older European nations, in case of insolvency, the note-holders would enjoy no preference over the deposit-holders. They would share ratably in the assets. To give the credit which enables the notes of these great banks to circulate, restricted by stringent laws as they are, no injustice to depositors, such as is proposed in these plans for the United States, is necessary. In one country only, Canada, are the note-holders preferred over the depositors in case of insolvency. The note-issuing banks of Canada are but thirty-eight in number, with a combined circulation of about $38,000,000. We cannot accept as safe any deductions, drawn from the bank-note system of these few central institutions of eastern Canada, which would tend to justify the application of the laws governing that system to the thirty-six hundred national banks of this country.

The Comptroller desires to call attention, as a summary of his views upon the proposed plans, to these propositions:

First. As a fundamental proposition, any bank-note system depending for security upon the commercial assets of banks, and sanctioned by Government, should be inherently fair in its relation to the deposit-holding creditors and the note-holding creditors of an insolvent bank.

Second. No system is inherently fair which creates a preference of the note-holder over the deposit-holder, in the distribution of the assets of an insolvent bank.

Third. In none of the older countries, to the success of whose uncovered note systems we are referred as tending to

justify the experiment in this country, is the note-holder by the law preferred over the deposit-holder, in the case of insolvency of banks of issue. Canada, with its thirty-eight central banks of issue, as compared with thirty-six hundred scattered national banks in this country, furnishes the only exception to this rule.

Fourth. The necessity of the preference under any such system in this country, to give security and credit to the notes, demonstrates that it is the depositors of the country, and not the banks, upon whom the great weight of the guaranty of the note issues must fall.

Fifth. A fairer system would provide that, when a receiver took charge of an insolvent bank, he should not first pay into the general redemption fund held by the Government an amount derived from the assets of the bank sufficient to pay the note-holders in full before paying anything to depositors, but he should pay into the fund that *pro-rata* share of the proceeds derived from the assets which should go to the note-holders, not as preferred creditors, but as creditors in the same class as depositors. The tax upon the solvent banks for the currency privilege should not then be limited to not exceeding one per cent per annum of their annual note issue, or in any other amount, but should be made sufficiently large to provide for the deficit whatever it should prove to be.

Sixth. If under such a system, owing to causes to which we have referred, the tax upon the solvent banks would be so large as to render the issue of such currency unprofitable and unattractive to the banks, it would be a demonstration of the radical difference in the environment and condition of our banking system as compared with the more centralized and older systems of Europe. It would be a demonstration of the fact that, under the proposed legislation, while the banks would take the profits upon the circulation,

the depositors would take the bulk of the losses. It would be a conclusive demonstration of what we believe to be the fact that, under our banking system as at present organized, the absolute safety of notes, secured only by commercial assets and issued to the extent proposed in these plans, can be secured only by resort to a grave injustice upon depositors which cannot be justified upon any grounds of public policy.

Seventh. Such a system of uncovered notes as this proposed, providing for a preference of the note-holders over other creditors, would interfere radically with the more important functions of national banks, to which the note-issuing function is secondary and subordinate. This would be against public policy, and would operate against banking in the smaller communities, and in the western, southern, and central portions of our country.

Eighth. The Government of the United States is not in such straits, in connection with its present currency system, as to compel it to enter into a plan of currency changes, by which it in effect sells extended and valuable currency privileges to the national banks of the country, in exchange for assistance from them in meeting its present governmental currency obligations payable in gold.

Ninth. If the present conditions of governmental currency demand reforms, to secure which will entail cost, it is better for the Government, as the representative of all the people, and under all the circumstances connected with our banking system, to pay an ascertained and exact cost direct, than to endeavor to evade it by granting extensive currency privileges to banks, which of necessity must reimburse themselves from the community and the depositor class for any cost which they incur in assuming the burden of gold redemption, or maintaining the credit of their notes.

The most serious objection which is urged against our present system of bank-note currency is its inelasticity and inability to respond to the pressing demands and necessity for an increase of circulation in times of enforced liquidation due to a commercial and banking panic. Under normal business conditions and in normal times, the inelasticity of the present note issues of banks causes but small inconvenience, though at certain seasons of the year, when crops are to be moved, banks in certain sections of the country are compelled to rediscount their paper somewhat to supply the needed currency. The demand, however, is usually supplied by the banks of the East, and the growing wealth of the West and South is rapidly bringing about a more even distribution of capital and consequently of currency.

We have at present in this country an enormous volume of what may be called bank-credit currency, based upon the assets of our banks, and consisting of checks, drafts, and bills of exchange. This volume of bank-credit currency expands and contracts in accordance with the demands of trade and business under normal conditions, and is the medium through which the great bulk of the business of our country is transacted. It is extremely elastic, and varies in amount at different seasons of the year. It is generally amply adequate to the business needs of the country, except in times of disturbed confidence and financial panic.

In France and Germany and other countries, where the check and draft system is not developed as it is here, there exists the greater need for large and elastic bank-note issues. In England, where the check and draft system is so well developed, we find more strict provisions regarding uncovered note issues. The Bank of England issues no notes unsecured either by the deposit of gold bullion or a government debt. Since the law of 1844, the other banks

of issue of England, Scotland, and Ireland can emit no more uncovered notes than the amount in existence at that time. The right to issue uncovered notes is thus limited, and the combined issues of uncovered notes of the banks of England, Scotland, and Ireland is comparatively small.

Fixed issues of the Bank of England and of the other banks of issue in the United Kingdom in December, 1897 [1]

	Number	*Circulation*
England, Bank of	1	£16,800,000
England, private banks	38	1,374,376
England, joint-stock banks	31	1,762,961
Scotland, joint-stock banks	10	2,676,350
Ireland, joint-stock banks	6	6,354,494
Total	86	£28,968,181

The average issues for the four weeks ended on December 4, 1897, of the joint-stock and the private banks of England and of Wales were £1,470,898, or £1,666,439 below the fixed amount.

The average issues of the joint-stock banks of Scotland and Ireland for the four weeks ended on November 27, 1897, were £14,862,261 or £5,831,417 above the fixed issues. These banks held in specie during the same period £9,703,888, leaving uncovered £5,158,373 of their issues.

The enormous growth of the business of England, since the enactment of the law of 1844, has developed no such need of uncovered notes as to have brought about a reversal of that restrictive legislation. While in this country, with its extended system of banks and its great development of the check and draft system, some degree of elasticity in bank-note issues is desirable, it is not essential that it should be an amount so large as to make necessary for its security an injustice upon the depositor, and thus, by interfering with the check and draft system, defeat one of its own prime objects.

The general principles and regulations under which such

[1] *London Bankers' Magazine*, January, 1898, page 119.

TABLE I. — CAPITAL, ASSETS, CLAIMS PROVED, DIVIDENDS PAID
VALUABLE ASSETS TO NOMINAL ASSETS UPON FINAL LIQU
WHICH HAVE BEEN FINALLY CLOSED, 1865 TO MAY, 1898, — CLA

Geographical divisions	*No. of banks*	*Capital*	*Total assets*	*Claims proved*	*Dividends paid*	
					Amount	*Per cent*
New England..	10	$2,571,300	$17,195,440	$11,508,426	$9,626,055	83.64
Eastern.....	50	9,155,600	31,135,897	18,399,239	14,469,195	78.64
Southern	33	4,775,000	15,263,365	10,111,715	6,611,266	65.38
Middle.....	44	9,122,000	24,153,212	11,167,256	7,996,983	71.61
Western.....	44	3,382,000	9,308,471	3,352,511	2,195,061	61.79
Pacific.....	14	1,725,000	5,687,777	2,628,811	1,644,705	62.56
Total.....	195	$30,730,900	$102,744,162	$57,367,958	$42,543,265	74.16

TABLE II. — CAPITAL, ASSETS, CLAIMS PROVED, DIVIDENDS PAID ;
ABLE ASSETS TO NOMINAL ASSETS UPON FINAL LIQUIDATION
AFFAIRS OF WHICH HAVE BEEN FINALLY CLOSED, 1865 TO M

Class	*Number of banks*	*Capital*	*Total assets*	*Claims proved*	*Dividends paid*	
					Amount	*Per cent*
$50,000	66	$3,280,000	$8,733,255	$4,424,178	$2,859,618	64.64
100,000	61	5,634,000	18,034,198	9,891,367	6,262,487	63.31
Total.....	127	$8,914,000	$26,767,453	$14,315,545	$9,122,105	63.72
$200,000	37	$6,355,600	$17,748,526	$9,211,748	$7,321,036	79.47
300,000	16	4,350,000	16,369,761	9,042,532	6,866,897	75.94
500,000	9	4,300,000	23,402,935	16,558,203	12,441,201	75.13
Over 500,000	6	6,811,300	18,455,487	8,239,930	6,792,026	82.43
Total.....	68	$21,816,900	$75,976,709	$43,052,413	$33,421,160	77.62
Grand total....	195	$30,730,900	$102,744,162	$57,367,958	$42,543,265	74.16

STATES EMBRACED WITHIN THE GEOGRAPH

New England: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut.

Eastern: New York, New Jersey, Pennsylvania, Delaware, Maryland, District of Columbia.

Southern : Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Texas, Arkansas, Kentucky, Tennessee.

Middle: Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri.

TOTAL REALIZED FROM ASSETS, AND THE RATIO OF
OF INSOLVENT NATIONAL BANKS, THE AFFAIRS OF
TION BY GEOGRAPHICAL DIVISIONS

owed	*Dividends paid from assets*	*Loans paid and other disbursements*	*Total realized from assets*	*Ratio of valuable assets to nominal assets upon final liquidation*
06	$8,459,272	$386,946	$10,207,324	59.36
53	11,881,870	2,398,475	17,260,498	55.44
99	5,625,641	477,224	6,808,364	44.61
84	6,785,456	2,042,152	11,796,392	48.84
52	1,470,922	1,033,518	3,083,292	33.12
73	1,452,295	491,737	2,538,605	44.63
67	$35,765,456	$6,830,052	$51,694,475	50.31

AL REALIZED FROM ASSETS, AND THE RATIO OF VALU-
LVENT NATIONAL BANKS, ARRANGED BY CLASSES, THE

wed	*Dividends paid from assets*	*Loans paid and other disbursements*	*Total realized from assets*	*Ratio of valuable assets (represented by offsets, dividends, etc.) to nominal assets, upon final liquidation*
75	$2,268,559	$664,800	$3,465,334	59.68
29	5,259,575	1,093,226	7,584,130	42.05
04	$7,528,134	$1,738,026	$11,049,464	41.28
03	$5,858,655	$693,963	$7,895,311	44.48
93	5,716,873	1,544,996	8,629,562	52.72
58	11,506,301	264,366	15,321,625	65.47
19	5,155,493	2,588,701	8,798,513	47.67
63	$28,237,322	$5,092,026	$40,645,011	53.50
67	$35,765,456	$6,830,052	$51,694,475	50.31

ISIONS REFERRED TO IN TABLES

North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming,
New Mexico, Oklahoma, Indian Territory.
Washington, Oregon, California, Idaho, Utah, Nevada, Arizona.
tion by capital stock is as follows: First division includes banks of $50,000;
r $50,000 and not exceeding $100,000; Third, over $100,000 and not exceed-
); Fourth, over $200,000 and not exceeding $300,000; Fifth, over $300,000
eeding $500,000; and Sixth, over $500,000.

TABLE I. — CAPITAL, ASSETS, CLAIMS PROVED, DIVIDENDS PAID; THE TOTAL REALIZED FROM ASSETS, AND THE RATIO OF VALUABLE ASSETS TO NOMINAL ASSETS UPON FINAL LIQUIDATION OF INSOLVENT NATIONAL BANKS, THE AFFAIRS OF WHICH HAVE BEEN FINALLY CLOSED, 1865 TO MAY, 1898, — CLASSIFICATION BY GEOGRAPHICAL DIVISIONS

Geographical divisions	*No. of banks*	*Capital*	*Total assets*	*Claims proved*	*Dividends paid*		*Offsets allowed*	*Dividends paid from assets*	*Loans paid and other disbursements*	*Total realized from assets*	*Ratio of valuable assets to nominal assets upon final liquidation*
					Amount	*Per cent*					
New England..	10	$2,571,300	$17,195,440	$11,508,426	$9,626,055	83.64	$1,361,106	$8,459,272	$386,946	$10,207,324	59.36
Eastern.....	50	9,155,600	31,135,897	16,399,239	14,469,195	78.64	2,980,153	11,881,870	2,398,475	17,260,498	55.44
Southern.....	33	4,775,000	15,263,365	10,111,716	6,611,266	65.38	705,499	5,625,641	477,224	6,608,364	44.61
Middle.....	44	9,122,000	24,153,212	11,167,256	7,996,983	71.61	2,878,784	6,785,456	2,042,152	11,796,392	48.84
Western.....	44	3,382,000	9,308,471	3,352,511	2,195,061	61.79	678,852	1,470,922	1,033,518	3,083,292	33.12
Pacific.....	14	1,725,000	5,687,777	2,628,811	1,644,705	62.56	694,573	1,452,295	491,737	2,538,605	44.63
Total.....	195	$30,730,900	$102,744,162	$57,367,958	$42,543,265	74.16	$9,098,967	$35,765,456	$6,830,052	$51,694,475	50.31

TABLE II. — CAPITAL, ASSETS, CLAIMS PROVED, DIVIDENDS PAID; THE TOTAL REALIZED FROM ASSETS, AND THE RATIO OF VALUABLE ASSETS TO NOMINAL ASSETS UPON FINAL LIQUIDATION OF INSOLVENT NATIONAL BANKS, ARRANGED BY CLASSES, THE AFFAIRS OF WHICH HAVE BEEN FINALLY CLOSED, 1865 TO MAY, 1898

Class	*Number of banks*	*Capital*	*Total assets*	*Claims proved*	*Dividends paid*		*Offsets allowed*	*Dividends paid from assets*	*Loans paid and other disbursements*	*Total realized from assets*	*Ratio of valuable assets (represented by offsets, dividends, etc.) to nominal assets, upon final liquidation*
					Amount	*Per cent*					
$50,000	66	$3,280,000	$8,733,255	$4,424,178	$2,859,618	64.64	$551,976	$2,268,559	$664,800	$3,465,334	39.68
100,000	61	6,634,000	18,034,193	9,891,367	6,262,487	63.31	1,231,329	5,259,575	1,093,226	7,584,130	42.05
Total.....	127	$9,914,000	$26,767,453	$14,315,545	$9,122,105	63.72	$1,783,304	$7,528,134	$1,738,026	$11,049,464	41.28
$200,000	37	$6,355,600	$17,748,526	$9,211,748	$7,321,036	79.47	$1,342,693	$5,858,655	$693,963	$7,895,311	44.48
300,000	16	4,350,000	16,369,761	9,042,532	6,866,897	75.94	1,367,693	5,716,873	1,544,996	8,629,562	52.72
500,000	9	4,300,000	23,402,935	16,558,203	12,441,201	75.13	3,550,958	11,506,301	264,366	15,321,625	65.47
Over 500,000	6	6,811,300	18,455,487	8,239,930	6,792,026	82.43	1,054,319	5,155,493	2,668,701	8,798,613	47.67
Total.....	68	$21,816,900	$75,976,709	$43,052,413	$33,421,160	77.62	$7,316,663	$28,237,322	$5,092,026	$40,645,011	53.50
Grand total....	195	$30,730,900	$102,744,162	$57,367,958	$42,543,265	74.16	$9,098,967	$35,765,456	$6,830,052	$51,694,475	50.31

STATES EMBRACED WITHIN THE GEOGRAPHICAL DIVISIONS REFERRED TO IN TABLES

New England: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut.

Eastern: New York, New Jersey, Pennsylvania, Delaware, Maryland, District of Columbia.

Southern: Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Texas, Arkansas, Kentucky, Tennessee.

Middle: Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri.

Western: North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, New Mexico, Oklahoma, Indian Territory.

Pacific: Washington, Oregon, California, Idaho, Utah, Nevada, Arizona.

Classification by capital stock is as follows: First division includes banks of $50,000; Second, over $50,000 and not exceeding $100,000; Third, over $100,000 and not exceeding $200,000; Fourth, over $200,000 and not exceeding $300,000; Fifth, over $300,000 and not exceeding $500,000; and Sixth, over $500,000.

TABLE III.—ESTIMATED LOSS TO DEPOSITORS OF INSOLVENT
ISSUES EQUALING 100, 80, AND 60 PER CENT OF CA

Geographical divisions, by States	*Number of banks*	*Per cent of dividends actually paid depositors on claims proved, as shown by preceding tables*	*Circulation*	*Dividends actually paid depositors on claims, as shown by preceding tables, increased by receipts which would be received from circulation, less 5 per cent fund in the same ratio as that of valuable assets to nominal assets shown in preceding tables*
			100 per cent of capital	
New England...	10	83 64	$2,571,300	$11,076,062
Eastern.....	50	78.64	9,155,600	19,291,266
Southern.....	33	65.38	4,775,000	8,634,887
Middle.....	44	71.61	9,122,000	12,229,408
Western.....	44	61.79	3,382,000	3,259,173
Pacific.....	14	62.56	1,725,000	2,376,079
Total.....	195	74.16	$30,730,900	$56,866,875
			80 per cent of capital	
New England...	10	83.64	$2,057,040	$10,786,060
Eastern.....	50	78.64	7,324,480	18,326,852
Southern.....	33	65.38	3,820,000	8,230,162
Middle.....	44	71.61	7,297,600	11,382,923
Western.....	44	61.79	2,705,600	3,046,250
Pacific.....	14	62.56	1,380,000	2,229,804
Total	195	74.16	$24,584,720	$54,002,151
			60 per cent of capital	
New England...	10	83.64	$1,542,780	$10,496,059
Eastern.....	50	78.64	5,493,360	17,362,437
Southern.....	33	65.38	2,865,000	7,825,438
Middle.....	44	71.61	5,473,200	10,536,438
Western.....	44	61.79	2,029,200	2,833,528
Pacific.....	14	62.56	1,035,000	2,083,529
Total	195	74.16	$18,438,540	$51,137,429

ATIONAL BANKS, WITH CIRCULATION AS A PREFERRED CLAIM — ITAL — CLASSIFICATION BY GEOGRAPHICAL DIVISIONS

vidends which would remain after deducting circulation (less 5 per cent fund) as a preferred claim from dividends on claims and receipts from circulation as shown by previous column	*Per cent of dividends which would be paid on all claims proved, after deducting circulation, less 5 per cent fund*	*Per cent of loss on claims by preference of proposed circulation, being the difference between the percentage of dividends actually paid depositors on claims proved, and the percentage which would be paid on claims after deducting proposed circulation*	*Percentage of loss upon the amount actually received by depositors, which would result from preference of proposed circulation*
$8,633,327	75.02	8.62	10.30
10,593,446	57.58	21.06	26.78
4,098,637	40.53	24.85	38.00
3,563,508	31.91	39 70	55.44
46,273	1.36	60.49	97.89
737,329	28.05	34.51	55.16
$27,672,520	48.24	25.92	34.95
$8,831,872	76.74	6.90	8.25
11,368,596	61.79	16.85	21.42
4,601,162	45.50	19.88	30.41
4,450,203	39.85	31.76	44.35
476,030	13.40	48.39	78.31
918,804	34.95	27.61	44.13
$30,646,667	53.42	20.74	27.97
$9,030,418	78.47	5.17	6.18
12,143,745	66.00	12.64	16.07
5,103,688	50.47	14.91	22.80
5,336,898	47.79	23.82	33.26
905,788	25.50	36.29	58.73
1,100,279	41.85	20.71	33.10
$33,620,816	58.61	15.55	20.97

TABLE III.—ESTIMATED LOSS TO DEPOSITORS OF INSOLVENT NATIONAL BANKS, WITH CIRCULATION AS A PREFERRED CLAIM—ISSUES EQUALING 100, 80, AND 60 PER CENT OF CAPITAL—CLASSIFICATION BY GEOGRAPHICAL DIVISIONS

Geographical divisions, by States	*Number of banks*	*Per cent of dividends actually paid depositors on claims proved, as shown by preceding tables*	*Circulation*	*Dividends actually paid depositors on claims, as shown by preceding tables, increased by receipts which would be received from circulation, less 5 per cent fund in the same ratio as that of realizable assets to nominal assets shown in preceding tables*	*Dividends which would remain after deducting circulation (less 5 per cent fund) as a preferred claim from dividends on claims and receipts from circulation as shown by previous column*	*Per cent of dividends which would be paid on all claims proved, after deducting circulation, less 5 per cent fund*	*Per cent of loss on claims by preference of proposed circulation, being the difference between the percentage of dividends actually paid depositors on claims proved, and the percentage which would be paid on claims after deducting proposed circulation*	*Percentage of loss upon the amount actually received by depositors, which would result from preference of proposed circulation*
			100 per cent of capital					
New England	10	83 64	$2,571,300	$11,076,062	$8,633,827	75.02	8.62	10.30
Eastern	50	78.64	9,155,600	19,291,266	10,593,446	57.58	21.06	26.78
Southern	33	65.38	4,775,000	8,634,887	4,098,637	40.53	24.85	38.00
Middle	44	71.61	9,122,000	12,229,408	3,563,508	31.91	39 70	55.41
Western	44	61.79	3,382,000	3,259,173	46,273	1.30	60.49	97.89
Pacific	14	62.56	1,725,000	2,376,079	737,329	28.05	34.51	55.10
Total	195	74.16	$30,730,900	$56,866,875	$27,672,520	48.24	25.92	34.95
			80 per cent of capital					
New England	10	83.64	$2,057,040	$10,786,060	$8,831,872	76.74	6.90	8.25
Eastern	50	78.64	7,324,480	18,326,852	11,368,596	61.79	16.85	21.42
Southern	33	65.38	3,820,000	8,230,162	4,601,162	45.50	19.88	30.41
Middle	44	71.61	7,297,600	11,382,923	4,450,203	39.85	31.76	44.35
Western	44	61.79	2,705,600	3,046,250	476,030	13.40	48.39	78.31
Pacific	14	62.56	1,380,000	2,229,804	918,804	34.95	27.61	44.13
Total	195	74.16	$24,584,720	$54,002,151	$30,646,667	53.42	20.74	27.97
			60 per cent of capital					
New England	10	83.64	$1,542,780	$10,496,059	$9,030,418	78.47	5.17	6.18
Eastern	50	78.64	5,493,360	17,362,437	12,143,745	66.00	12.64	16.07
Southern	33	65.38	2,865,000	7,825,438	5,103,688	50.47	14.91	22.80
Middle	44	71.61	5,473,200	10,536,438	5,336,898	47.79	23.82	33.20
Western	44	61.79	2,029,200	2,833,528	965,788	25.50	36.29	58.73
Pacific	14	62.56	1,035,000	2,083,529	1,100,279	41.85	20.71	33.10
Total	195	74.16	$18,438,540	$51,137,429	$33,620,816	58.61	15.55	20.97

TABLE IV. — ESTIMATED LOSS TO DEPOSITORS OF INSOLVENT NATIONAL BANKS, WITH CIRCULATION AS A PREFERRED CLAIM — ISSUES EQUALING 100, 80, AND 60 PER CENT OF THE CAPITAL STOCK — CLASSIFICATION OF BANKS BY CAPITAL STOCK

Class of banks	Number of banks	Per cent of dividends actually paid depositors on claims proved, as shown by preceding tables	Circulation	Dividends actually paid depositors on claims, as shown by preceding tables, increased by receipts which would be received from circulation, less 5 per cent fund, in the same ratio as that of valuable assets to nominal assets shown in the preceding tables	Dividends which would remain after deducting circulation (less 5 per cent fund) as a preferred claim from dividends on claims and receipts from circulation, as shown by previous column	Per cent of dividends which would be paid on all claims proved, after deducting circulation, less 5 per cent fund	Per cent of loss on claims by preference of proposed circulation, being the difference between the percentage of dividends actually paid depositors on claims proved, and the percentage which would be paid on claims after deducting proposed circulation	Percentage of loss on the amount actually received by depositors which would result from preference of proposed circulation
			100 per cent of capital					
$50,000	66	64.64	$3,280,000	$4,096,046	$980,046	22.15	42 49	65.73
100,000	61	63.31	5,634,000	8,513,129	3,160,829	31.96	31 85	49.62
Total	127	63.72	$8,914,000	$12,609,175	$4,140,875	28.93	34.79	54 59
$200,000	37	79.47	$6,355,600	$10,006,658	$3,968,838	43.08	36.39	45.79
300,000	16	75.94	4,350,000	9,045,551	4,913,051	54.33	21.61	28.46
500,000	9	75.13	4,300,000	15,115,650	11,030,650	66.62	8 51	11.33
Over 500,000	6	82.43	6,811,300	9,876,625	3,405,890	41.33	41.10	49.86
Total	68	77.62	$21,816,900	$44,044,484	$23,318,429	54.16	23.46	30 22
Grand total..	195	74.16	$30,730,900	$56,653,659	$27,459,304	47.87	26.29	35.45
			80 per cent of capital					
$50,000	66	64.64	$2,264,000	$3,348,761	$1,355,961	30.65	33.99	52.58
100,000	61	63.31	4,507,200	8,063,000	3,781,160	38.23	25.08	39.61
Total	127	63.72	$7,131,200	$11,911,761	$5,137,121	35.88	27.84	43.69
$200,000	37	79.47	$5,084,480	$9,469,533	$4,639,277	50.36	29.11	36.63
300,000	16	75.94	3,480,000	8,609,820	5,303,820	58.65	17 29	22.77
500,000	9	75.13	3,440,000	14,580,760	11,312,760	68.32	6.81	9.06
Over 500,000	6	82.43	5,449,040	9,259,705	4,083,117	49.55	32.88	39.89
Total	68	77.62	$17,453,520	$41,919,818	$25,338,974	58 86	18.76	24.17
Grand total..	195	74.16	$24,584,720	$53,831,579	$30,476,095	53 12	21.04	28.37
			60 per cent of capital					
$50,000	66	64 64	$1,968,000	$3,601,475	$1,731,875	39.15	25.49	39 43
100,000	61	63.31	3,380,400	7,612,872	4,401,492	44.50	18 81	29 71
Total	127	63.72	$5,348,400	$11,214,347	$6,133,367	42.84	20.88	32 77
$200,000	37	79.47	$3,813,360	$8,932,409	$5,309,717	57.64	21.83	27 47
300,000	16	75.94	2,610,000	8,174,089	5,694,589	62.98	12 96	17 06
500,000	9	75.13	2,580,000	14,045,870	11,594,870	70.02	5 11	6 80
Over 500,000	6	82.43	4,086,780	8,642,785	4,709,344	57.77	24 68	29.92
Total	68	77.62	$13,090,140	$39,795,153	$27,359,520	63 55	14.07	18 43
Grand total..	195	74.16	$18,438,540	$51,009,500	$33,492,887	58 38	15 78	21.78

elasticity might be obtained, are not in any way inconsistent with the principles and arguments we have endeavored to set forth. As covering these general principles, and as a conclusion from the views hereinbefore expressed, the Comptroller would make the following recommendations in regard to the present laws governing the issue of national bank-notes: —

First. The existing bank-note system, based upon deposit of government bonds as security, should not now be abandoned.

Second. For the purpose of allowing elasticity to bank-note issues to protect the banks and the community in time of panic, a small amount of uncovered notes, in addition to the secured notes, should be authorized by law under the following limitations: They should be subjected to so heavy a tax that they could not be issued in normal times for the purpose of profit, but would be available in times of emergency. The tax should be so large upon the solvent issuing banks as to provide a fund, which, in connection with the *pro-rata* share of the assets of an insolvent bank, would be sufficient to redeem the notes in full, without necessitating any preference of note-holders over depositors of any insolvent issuing bank. The tax should be so large as to force this currency into retirement as soon as the emergency passes.

Such a currency could be used only to lessen the evil effects of the too rapid liquidation of credits which are collapsing under a financial panic, but could not be profitably used as a basis of business speculation and inflation. It should be to the business community what the clearing-house certificates are to our cities in times of panic — a remedy for an emergency, not an instrument of current business.

The tables hereinbefore referred to are printed herewith.

NATIONAL-BANK EXAMINERS

The character of the work performed by the national-bank examiners is most important in its relation to all sections of our country, and to all classes of our people.

For the proper conduct of the work of supervision of our national banks, examiners must be men of the highest personal character and extended business experience. They should be men who possess some skill in accounting, and at the same time the business judgment to enable them to intelligently pass upon the lines of credit extended by banks under their supervision.

The appointment by the Comptroller to these important positions, of competent and able men, is one of the most sacred duties of his office. To protect by every possible safeguard their independence and disinterestedness is equally important. With this latter object in view, the Comptroller has forbidden the practice, which he found in existence in some of the larger cities, of the employment of the examiners by banks of their district in special examination work for the benefit of the bank, and not for the Comptroller's office. This practice had a tendency to interfere with the rigid impartiality which should characterize the work of a government official.

During the year the Comptroller has extended over the cities of New York, Boston, Philadelphia, and Baltimore the system of semi-annual visitations by examiners, in force in all other sections of the country. He has utilized, with some benefit, the examiners in investigations into the credit of heavy debtors of banks, where such indebtedness constituted a menace to the safety of the banks, and where, despite the criticisms of the Comptroller and the efforts of the bank officials, no material reductions in the amount of the indebtedness could be had. The necessity for such

investigations sometimes arises, and whenever they have been made, the result has been most beneficial.

The verification, by more extended investigation than is possible in the ordinary examination of a bank, of the *ex-parte* statements of interested officials, as to the safety of large, permanent, and unreducible loans, sometimes becomes of vital importance in determining the course of the Comptroller in closing a bank or allowing it to remain open. For the purposes of this work he recommends an increase in the annual fund provided for examinations of bank-note plates, and for compensation of examiners engaged in special examinations, of $2000, making the fund $3000 instead of $1000, as at present.

LIMITATION OF LOANS

One of the most important reforms needed in the present National Banking Law is a proper provision limiting the amount which can be loaned to any one individual or corporation, in order to insure a general distribution of loans, and to prevent an improper concentration of a bank's funds in the hands of a few borrowers. The provision of the present National Banking Law designed to carry into effect this important principle is as follows: —

> Sec. 5200. The total liabilities to any association of any person, or of any company, corporation, or firm, for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed one-tenth part of the amount of the capital stock of such association actually paid in. But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same, shall not be considered as money borrowed.

Almost as if in admission of the fact that this provision is unscientific, and ill-adapted to carry into practical effect

the great principles of protection to depositors and shareholders, subserved by generally distributed and safe loans, the present law provides no specific penalty against individuals which the Comptroller can apply for violations of this section in the making of excessive loans, where such violations do not affect the solvency of the bank, nor justify the appointment of a receiver. A United States court, under the general provision of the law providing for the forfeiture of the franchises of a bank for any violations of the Banking Act, might adjudicate the question of fact as to such violations, but could apply no other remedy than forfeiture of franchise.

Since the institution of the national banking system the violation of this provision has been common; and the Comptroller, though allowing no known violation to escape his written protest, finds great practical difficulty in his endeavors to enforce this requirement. On September 20, 1898, the date of the last call by the Comptroller for statements of condition of national banks, 1124 banks, constituting nearly one third of the entire number of banks in the system, reported loans in excess of the limit allowed by section 5200, Revised Statutes of the United States.

The principles underlying the present provision of the law are as valuable to depositors and shareholders, in their application to the banks of the larger communities, as to the banks of the smaller communities; but the observance of this provision, while not interfering with the current requirements of either the banks or the public in smaller communities, proves an almost insurmountable obstruction to the business of our larger cities.

The present need is for an amendment to this provision, which, while compelling, under penalties, the safe and proper distribution of loans of larger banks, will enable them to loan more nearly the same percentage of their

total assets which the present provision allows to small banks. In this way the officers of larger banks can supply the proper needs of the larger communities without disregarding the law, and the Comptroller can hold them, under personal penalty, to strict observance of the amended law, which when disregarded would indicate improper distribution of loans, something which infractions of the present provisions in the case of many banks do not necessarily indicate.

The greater ratio borne by banking resources to banking capital in the larger communities, as compared with the like ratio in smaller communities, is responsible for the defective and unequal working of the present provision. The average ratio of resources to the average capital of the 47 national banks in the city of New York is as 18 is to 1; of the 17 national banks in Chicago, as 10.2 is to 1; of the 6 national banks in St. Louis, as 7.3 is to 1; of the 257 national banks in other reserve cities, as 6.6 is to 1; while in 3255 country banks the ratio is but as 4.7 is to 1.

The law limiting loans to 10 per cent of the capital, when applied to the 3255 banks of the smaller communities of the country, as a whole, would allow the loaning of 2.14 per cent of their total assets to one individual. As compared with this, the banks of the city of New York, on the average, could not loan over .56 of one per cent of their total assets to any one individual; the banks of Chicago, not over .98 of one per cent of their total assets; the banks of St. Louis, not over 1.4 per cent of their total assets; the banks of other reserve cities, not over 1.51 per cent of their total assets.

In other words, the proportion of their assets which the country banks of the United States can loan, in strict compliance with section 5200, to one individual, is .63 of one per cent greater than in 257 reserve cities, .74 of one per

cent greater than in St. Louis, over twice as great as in Chicago, and nearly four times as great as in the city of New York.

This provision, as it stands at present, constitutes an incentive to the making of loans the larger in proportion to the total assets of banks in smaller communities, where, as a rule, large loans which are safe are the most difficult to secure; while in the larger business centers of the country, where commercial conditions create a certain demand both from banks and borrowers for large and safe loans, its effect is the reverse to such an extent as to be injurious.

A bank with smaller loans is not necessarily a bank with the more distributed and safe loans. A bank with $100,000 capital and $100,000 deposits, the latter being loaned in the maximum amounts allowed by the present provision (to wit, to ten individuals at $10,000 each), has not as well distributed loans as a bank of $1,000,000 capital and $5,000,000 deposits, the latter loaned to fifty people at the maximum of $100,000 each. In the former case the loans are distributed among only ten people and in the latter case among fifty people, and yet in each case there is strict compliance with the ten per cent restriction.

One of the objects evidently designed to be subserved by the present provision of the law was the protection of the capital of a bank, as distinguished from other assets of the bank. The framers of the section undoubtedly considered the capital of a bank as a greater safeguard for the depositors against loss, when not over one-tenth part of it was loaned to a single individual or corporation without security. They recognized the fact, however, that when outside security was had for loans, the capital did not need for its protection the ten per cent restriction; and they provided accordingly for the exemption from the restriction of a certain class of secured loans, as follows: —

But the discount of bills of exchange drawn in good faith against actually exisitng values, and the discount of commercial or business paper actually owned by the person negotiating the same, shall not be considered as money borrowed.

In the modification of section 5200, which we will recommend, we invoke the same principle of outside security for the protection of the capital against loss upon loans exceeding the ten per cent limit.

The size of a loan is, of itself, no indication either of its strength or weakness. If the size of a loan is not such as to be an undue concentration of the assets of a banking institution in the hands of one individual or corporation, thus depriving its creditors and shareholders of the safety of the law of average, it is not wise, either upon economic grounds or upon grounds of public policy, to forbid it by law. If, however, the size of a loan is such as to cause such undue concentration, its prevention is justifiable on both grounds.

Recognizing these truths, it is the easier to understand why in many instances a strict compliance with this provision of the law (sec. 5200, R.S., U.S.) is consistent with all the needs of the current business of a small community and a proper protection to both banks and the public, yet in some larger communities it seriously interferes with the business requirements of both the banks and the public, and adds in no way to the safety of the depositor.

The limit of the amount of single loans to an arbitrary percentage of either the capital, or the sum of the capital and surplus of a bank, does not insure a general or proper distribution of loans in all cases. Since, as stated before, the size of a loan is not, *per se*, related to its safety, the more important proportion to consider, when endeavoring to regulate the distribution of loans by law, is that of the amount of the loan to the total assets, rather than that of the loan to the amount of the capital.

Grounds of public policy suggest as advisable the largest liberty in loans, not inconsistent with the absolute safety of the depositor. The habitual disregard of the present provision by the officers of so many banks interferes with the proper supervision of the banks by the Comptroller, and tends to create indifference to the other restrictions of the National Banking Law.

The failure of the present law to provide the power to apply a personal penalty for the making of excessive loans sometimes embarrasses the Comptroller in endeavoring to check tendencies toward recklessness in loaning, which point to the ultimate ruin of a banking institution.

As before stated, the present provision, when properly altered, should allow the banks of larger communities to have more nearly the privilege of loaning a given per cent of their total assets to one individual, which now belongs, under a strict compliance with the present provision, to the banks of the smaller communities. From this privilege they are now debarred by law.

The desired results can be obtained, in our judgment, by adding, after the words, in section 5200, "shall at no time exceed one-tenth part of the amount of the capital stock of such association actually paid in," the following words: —

Provided, That the restriction of this section as to the amount of total liabilities to any association, of any person, or of any company, corporation, or firm for money borrowed, shall not apply where a loan in excess of one-tenth part of the capital stock shall be less than two per cent of the total assets of said bank at the time of making said loan. Said loan shall be at all times protected by collateral security equal to or greater in value than the excess in the amount of said loan over one tenth of the capital stock.

A strict and personal penalty, enforcible by the Comptroller, should then be provided for infractions of the

amended section by the officers of banks, to enable the Comptroller to successfully enforce general and strict compliance with its terms.

The suggested amendment will make section 5200 just and equitable in its relation to all national banks, and to all communities of our country, large and small, which it is not at present. It would not lessen the amount which the smaller banks can now loan in compliance with the section as it stands at present. At the same time it would not allow the larger banks to loan to any one individual or corporation more than ten per cent of their capital, unless such loan, in addition to being secured for the excess, would still amount to a less per cent of their total assets than the per cent of total assets which the smaller banks can now loan under the section as it stands at present.

Section 5200, thus amended, will not interfere, as at present, with the right of the banks in the larger communities to meet the legitimate requirements of business in these commercial centers. It will enable the Comptroller, by its enforcement, to prevent an undue concentration of loans and conserve their general distribution. Under the section, thus amended, the capital of a bank will be protected, inasmuch as no loan in excess of the ten per cent limit can then be made, except upon proper collateral security. The penalty clause will enable the Comptroller not only to limit size, but to enforce the securing of excessive loans.

The following table (on page 230) shows the inequality of the present law in its practical effects upon the banks of larger and smaller communities, so far as the possible distribution of loans is concerned.

For the purpose of ascertaining the general result of the suggested amendment to section 5200, of the United States Revised Statutes, an examination has been made of the reports of condition of the national banks of date July 14,

Banks in	*Number of banks, July 14, 1898*	*Average resources*	*Average capital*	*Maximum average loan, 10% of capital*	*Ratio of average resources to average capital*	*Average maximum loan to average resources now allowed by section 5200*
New York City.....	47	$18,598,379	$1,036,170	$103,617	18 to 1	.56 of 1%
Chicago.....	17	11,632,219	1,144,118	114,411	10.2 to 1	.98 of 1%
St. Louis.....	6	10,257,586	1,400,000	140,000	7.3 to 1	1.4 %
All central reserve cities.	70	16,191,676	1,093,571	109,357	14.8 to 1	.68 of 1%
Other reserve cities.....	257	3,909,561	591,343	59,134	6.6 to 1	1.51%
Country banks.....	3,255	565,130	120,888	12,088	4.7 to 1	2.14%
United States.	3,582	1,110,462	173,650	17,365	6.4 to 1	1.56%

1898, and examiners' reports for approximate dates nearest thereto. In the table on page 231 is set forth the number of banks in reserve cities named, total loans outstanding November 1, loans in excess of the legal limit, loans which would be excessive if allowed to the limit of two per cent of the total resources, and number of banks in which loans equaling ten per cent of their capital would be greater than two per cent of total assets, the loaning power of which the proposed limit would not increase. The table also shows similar information relative to one hundred banks selected at random from various sections of the country.

INSOLVENT BANKS

The Comptroller of the Currency is charged with general responsibility for the proper liquidation and distribution of the assets of the insolvent banks of the country, in the hands of receivers appointed by him. At present the assets of insolvent national banks of the country under his direction are of the nominal value of $48,000,000.

The decision of questions which are daily submitted by different receivers as to the proper disposition of these

Cities	*No. of banks*	*Total no. of loans outstanding, Nov. 1, 1898*	*No. of excessive loans under section 5200*	*No. of loans in excess of the proposed 2% limit*	*No. of banks in which loans equaling 10% of their capital would be greater than 2 % of total assets, the loaning power of which the proposed limit would not increase*
New York	47	29,919	504	30	2
Chicago	17	17,652	53	12	2
St. Louis	6	7,791	24	10	0
Total	70	55,362	581	52	4
Boston	52	43,123	9	1	28
Albany	6	4,326	52	17	0
Brooklyn	5	2,510	32	4	0
Philadelphia	37	25,134	145	38	1
Pittsburg	30	20,570	48	14	10
Baltimore	22	15,533	35	11	16
Washington	11	9,471	21	5	4
Savannah	2	1,230	2	0	2
New Orleans	7	4,605	52	2	2
Louisville	6	5,216	7	2	4
Houston	5	1,421	24	1	4
Cincinnati	13	14,542	14	5	0
Cleveland	13	10,211	27	12	5
Detroit	6	5,600	10	2	1
Milwaukee	5	6,353	6	1	1
Des Moines	4	2,969	2	0	1
St. Paul	5	2,788	4	2	3
Minneapolis	6	2,951	14	2	5
Kansas City	5	3,911	31	9	0
St. Joseph	2	1,447	21	4	0
Lincoln	3	1,190	3	0	3
Omaha	8	4,288	8	1	4
San Francisco	4	2,130	6	2	2
Total	257	191,519	573	135	96
Total all reserve cities	327	246,881	1,154	187	100
Country	100	51,550	250	88	54
Total	427	298,431	1,404	275	154

assets, scattered as they are throughout every section of the country, and consisting of the most diversified kinds of property, constitutes a most exacting and often perplexing part of the general duties of the office.

During the past year efforts have been made to cut down the expenses of receiverships, and hasten the final liquidation of the trusts. An annual saving approximating $100,000 has been effected by the reduction of the salaries of receivers and attorneys, to correspond with the gradually lessening assets consequent upon the progress of liquidation, and by the consolidation of various receiverships in the hands of fewer receivers.

Including the receivers appointed to take charge of banks which have failed during the year, the total number of receivers now at work is one hundred and thirteen, a reduction of fourteen since the last report of this office was issued. The books and remaining personal assets of eleven receiverships have been removed to Washington, and are managed by one receiver and two assistants, thus dispensing with ten receivers and five clerks, and resulting in other economies. These latter receiverships were of banks in the last stages of liquidation, with slow assets, of a nature which would involve serious loss at forced sale, or which were involved in unfinished litigation. Eight other receiverships are in process of removal to this office, which will result in dispensing with nineteen receivers in all.

With some marked exceptions, the experience of the office shows that the indifference of local receivers to the demands of the business of their trusts, has a tendency to grow, as the assets of the trust and their compensation diminish; and the results of the policy of consolidations of trusts has thus far amply justified the steps taken.

RULING AS TO SECOND ASSESSMENTS UPON STOCKHOLDERS AND REBATE TO STOCKHOLDERS IN CASE OF INCORRECT ASSESSMENTS

The practice of this office heretofore has been, when an assessment upon stockholders is once decided upon as the proper one to cover a deficiency in the assets of an insolvent bank and to reimburse depositors, to regard such levy as irrevocable and unchangeable, notwithstanding that further developments in the administration of a trust may demonstrate error in the assessment. This practice the Comptroller found, in many cases, to be inconsistent with the exact fulfillment of the law.

If an ordinary trustee, representing two parties to a settlement, is charged with the collection of a debt for one from the other, and, after collecting the amount which he believed to be due, discovers afterwards that he has only collected half the amount really due, it is his unquestionable duty to proceed once more to collect the unpaid balance. In like manner, if such a trustee collects what he considers the amount of the debt, and discovers afterwards that he has collected twice the amount actually due, it is his unquestionable duty to return the half of the amount unjustly collected to the wronged party. No trustee, upon the discovery of his mistake in either instance, would be justified in claiming that his first action was final, and that he owed no further duty to the parties involved.

The Comptroller, therefore, acting as trustee for the proper protection of the interests involved, cannot rightfully refrain from making second assessments against stockholders, where the first assessment was too small, or refuse to return to stockholders a portion of their paid assessments, when they were made in the first instance, through error, in an amount larger than that allowed by law.

An assessment is made against the stockholders of an insolvent bank to cover the difference between the claims against it and the value of its assets. When the assessment is made after all the assets have been disposed of, there is little likelihood of mistake by the Comptroller and the receiver in the fixing of the amount; but when the assessment is made prior to the final liquidation of the assets, as is generally the case, it is based upon the difference between the claims and the amount which the Comptroller and the receiver estimate as the cash value of the assets, after deducting allowances for contingencies and expenses.

The diversified nature, the location, the condition of the assets of insolvent banks are such that some errors in the appraisement of the Comptroller and receiver are inevitable and unavoidable. These errors if they exist are, of course, developed by the final liquidation of the trust. If the final liquidation develops that the total deficiency is so large that it would not have been covered by a fully paid assessment of 100 per cent upon the stockholders, and a 100 per cent assessment had already been declared, a former error in the estimate of the value of the assets would, of course, be immaterial; but, if the former assessment had been for a less amount than the 100 per cent, it is the Comptroller's plain duty, as trustee in the interest of the creditors for the collection of the legal liabilities of the stockholders, to make a second assessment for an amount which, with the former assessment, would equal the full stockholders' liability, to wit, 100 per cent. And thus, with any other error in deficient assessments, a second assessment should be made to cover the difference between the deficiency as estimated and the deficiency as developed by final liquidation.

In like manner, when the estimate of the deficiency upon which the assessment was based proves to be too large, it is

evident that the Comptroller has collected from the stockholders a greater sum than that which the law gives him authority to collect, and it is his duty to return the excess to the contributing stockholders.

There can be no reasonable dissent from these propositions. In their practical application it will sometimes happen that a return of an illegally collected excess will be made to stockholders, and at the same time the creditors of the same bank will not have been paid in full. This arises from the fact that the Comptroller can assess against each stockholder, under the law, only that proportion of the total deficit which his stock bears to the total stock, irrespective of whether or not, through the insolvency of some of the stockholders, a portion of the total deficit for which the assessment is made is uncollectible.

There are at present in the Comptroller's hands eight insolvent banks where a revision of the former assessment is necessary. In three of these a second assessment against stockholders, in the interest of depositors, has been made, and in five cases a rebate in assessments collected will be returned to stockholders.

The Comptroller reproduces here a portion of the holding of the United States Supreme Court and the original ruling made by the Comptroller thereunder, May 5, 1898, as more fully explaining the principles and methods involved: —

In the case of the United States *v.* Knox (102 U.S. 425), the court uses the following language in outlining the process to be pursued in fixing the separate liability of the shareholders: —

"In the process to be pursued to fix the amount of the separate liability of each of the shareholders, it is necessary to ascertain (1) the whole amount of the par value of all the stock held by all the shareholders; (2) the amount of the deficit to be paid after exhausting all the assets of the bank; (3) then to apply the rule that each shareholder shall contribute such sum as will bear the

same proportion to the whole amount of the deficit as his stock bears to the whole amount of the capital stock of the bank at its par value. There is a limitation of this liability. It cannot in the aggregate exceed the entire amount of the par value of all the stock.

"The insolvency of one stockholder, or his being beyond the jurisdiction of the court, does not in any wise affect the liability of another; and if the bank itself, in such case, holds any of its stock, it is regarded in all respects as if such stock were in the hands of a natural person, and the extent of the several liability of the other stockholders is computed accordingly." (Crease *v.* Babcock, 10 Met. (Mass.) 525.)

The court further says: "Although assessments made by the Comptroller under the circumstances of the first assessment in this case, and all other assessments, successive or otherwise, not exceeding the par value of all the stock of the bank, are conclusive upon the stockholders, yet, if he were to attempt to enforce one made clearly and palpably contrary to the views we have expressed, it cannot be doubted that a court of equity, if its aid were invoked, would probably restrain him by injunction."

The Supreme Court of the United States having thus determined the basis upon which, under the law, the Comptroller fixes the amount of the assessment to be levied against the shareholders of an insolvent bank, no other course is proper than a reconsideration of the question of the amount of the deficiency when the matter is brought before him upon complaint of either depositors or stockholders, or where an error becomes manifest to him in the course of the further administration of the trust.

The position of the Comptroller in his relations to the stockholders is that of a trustee for the collection, in the interest of the creditors, of all the legal liabilities of the stockholders under the statute, as further defined by the courts.

In pursuance of this duty as trustee, when upon further administration of the trust, an error in a former assessment is demonstrated in estimating the deficiency in the assets of the trust at too small an amount, it will become

the duty of the Comptroller to review the former action, and, if necessary, to levy an additional assessment upon the stockholders of the insolvent bank, for the purpose of collecting from each stockholder that proportion of the difference between the estimated and the actual deficiency which the stock of the individual stockholder bears to the total stock of the bank.

If, in the endeavor to enforce such liability through an error as to the exact deficiency, there is collected a greater amount from the shareholders than that for which they are legally liable, the Comptroller then becomes trustee for the stockholders who have paid such excess, charged with the return of said excess to the contributing stockholders in the proportion in which they have paid their original assessment to him. The determination of the amount to be returned to such stockholders must necessarily be deferred until the final closing of the trust, an amount being reserved at all times in the hands of the Comptroller sufficient to afford full protection to said contributing shareholders against any contingency of change in the amount collected from the assets, over the estimated value of assets at the time of assessment.

The following illustrations taken from the records of the office show the application of the ruling: —

In the case of the El Paso National Bank, El Paso, Texas, an assessment of 35 per cent on the $150,000 of capital stock was levied December 26, 1894. After all the assets had been liquidated, it appeared that if the whole amount of the assessment, $52,500, had been collected, a deficiency of $28,500 still existed, for which the shareholders were liable, and on May 6, 1898, an accounting having been made by the receiver, the individual liability of the shareholders was further enforced by an assessment of 19 per cent on the capital stock.

The process of ascertaining the deficiency is exemplified in the following statements of the liabilities and resources of the bank: —

Liabilities

Claims at date of suspension		$263,088.00
Claims established since suspension		21,568.57
Total claims		$284,656.57
Expenses:		
Amount paid for betterment of assets	$9,134.35	
Receiver's salary	12,749.75	
Legal expenses	3,444.97	
General expenses	6,547.55	31,876.62
Interest at 6% from date of suspension to December 31, 1898:		
On $161,947.45 claims proved	$34,600.19	
On $2,914.46 liabilities not proved	881.62	35,481.81
Estimated expenses to date of final closing December 31, 1898		2,000.00
Total liabilities		$354,015.00

Resources

Collections from all resources, exclusive of $13,650 collected from assessment of 35 per cent upon shareholders	$229,094.70
Offsets allowed against liabilities	43,808.28
Assessment of 35 per cent upon shareholders	52,500.00
Total resources	$325,402.98
Remaining deficiency of assets	$28,612.02

Or by the following statement of the liabilities and resources, the same result is obtained: —

Liabilities

Claims proved	$161,947.45
Liabilities not proved	2,914.46
Interest at legal rate from date of suspension to December 31, 1898, on proved claims	34,600.19
On liabilities not proved	881.62
Estimated expenses of receivership to date of final closing	2,000.00
Total liabilities	$202,343.72

Resources

Cash on deposit in United States Treasury	$95.02
Collections from assets, representing dividends paid to creditors on $161,947.45 proved claims	121,136.68
Assessment, 35 per cent, upon shareholders	52,500.00
Total resources	$173,731.70
Remaining deficiency of assets	$28,612.02

In the case of one national bank, in which an assessment of 70 per cent had been levied upon its capital stock of $60,000, it has been ascertained that an assessment of 32 per cent, if paid in full, would have been sufficient, in connection with the collections from the assets, to pay its liabilities, and that $6856 of the amount collected from the shareholders, in excess of the amount that would have been payable on the basis of an assessment at the latter rate, is returnable to them in the following proportions, numbers being used to indicate the shareholders who have paid the assessment of 70 per cent in whole or in part.

No. of claim	*No. of shares*	*Amount of capital stock*	*Assessment of 70 % on capital stock*	*Amount collected in cash on 70% assessment*	*Assessment 32%, representing actual deficiency of assets*	*Amount of overpayment on basis of 32% assessment*
1.....	10	$1,000	$700	$700	$320	$380
2.....	7	700	490	490	224	266
3.....	5	500	350	350	160	190
4.....	10	1,000	700	700	320	380
5.....	1	100	70	70	32	38
6.....	10	1,000	700	700	320	380
7.....	5	500	350	350	160	190
8.....	100	10,000	7,000	7,000	3,200	3,800
9.....	2	200	140	140	64	76
10.....	60	6,000	4,200	3,000	1,920	1,080
11.....	2	200	140	140	64	76
Total	212	$21,200	$14,840	$13,640	$6,784	$6,856

All assets of the bank having been liquidated, the amount for which the shareholders should have been assessed to

meet the deficiency was $19,200, instead of $42,000, as will appear from the following statement of its liabilities and assets: —

Liabilities

Claims proved, upon which 60 per cent in dividends have been paid	$28,695.18
Claims not proved, as shown by the books	565.58
Interest on above claims to date	6,793.51
Total liabilities	$36,054.27

Assets

Cash on deposit in the United States Treasury	$5,376.20
Collections from assets representing dividends 60 per cent on $28,695.18, claims proved	11,478.07
Total assets	$16,854.27
Deficiency of assets	$19,200.00

Assessment, 32 per cent on $60,000 capital stock	$19,200	
Assessment, 70 per cent on $60,000 capital stock	42,000	
Excess over amount of actual deficiency	$22,800	
Amount collected on 70 per cent assessment		$13,640.00
Proportionate amount that would have been collected on 32 per cent assessment		6,784.00
Amount collected on 212 shares of stock in excess of 32 per cent assessment		$6,856.00

DOMESTIC BRANCH BANKING

The Comptroller recommends, in accordance with former recommendations of his predecessor, that domestic branch banking should be legalized in communities of less than two thousand inhabitants, many of which are now unable to support independent banks. This would afford some smaller communities banking privileges which are now without them, but would not materially interfere with the scope of the work now so well performed by the existing banks of the smaller communities.

The main arguments which are advanced in favor of the

granting of more liberal privileges of branch banking than this are based largely upon the theory that with branch banking allowed in all communities, irrespective of size, more uniform interest rates would prevail throughout the country, and the flow of capital to points of scarcity would be facilitated.

Such privileges would place the larger banks of the great cities in competition with the banks of smaller communities, and would probably result in a rapid centralization of the banking business of the country in the hands of a constantly lessening number of institutions. Theoretical advantages are claimed for such results, but in our judgment they would be injurious to the best interests of our country.

Such a system would increase the difficulties in the way of the small borrower, though lessening them for the large borrower. It would tend to separate the borrower from the lender, as it would of necessity remove the central lending power from the small borrowers of small communities.

It may be claimed that the agents in charge of the branch banks would possess the same powers of loaning as the officers of the smaller banks now possess; but such arguments ignore the prevailing tendencies of modern corporate management, which magnify of necessity central responsibility, and constantly tend to subordinate to rigid systems the activities and responsibilities of agents upon detached duty.

The opportunities for individual attention and accommodations to bank customers of limited business are now well subserved by competing small banks. Interest rates are not alone dependent upon local money supply; they also depend upon the risk of loss assumed in loaning. Branch banks in newer communities would not assume unusual risks, without unusual rates. The facilities now

afforded by the thirty-six hundred national banks of the country for the movement of capital toward points of scarcity are such that any new system would probably not result in great changes in the general rates of interest. But when the economic tendencies adverse to business individualism involved in unlimited domestic branch banking are considered, the question of interest rates becomes secondary.

FOREIGN AND COLONIAL BRANCH BANKING

In the matter of foreign and colonial branch banking, however, different considerations, arising from different conditions, present themselves.

The subject of the legislation which should be provided by Congress for the regulation of the domestic banking of the new colonies of the United States, and for the defining and regulation of the banking relations between these colonies and the United States, is one of greatest importance at this juncture of our national and commercial career. This legislation is not only most essential to the welfare of the people of the new territories, but to the people of the United States as well.

The foundation for the greater growth of trade between the United States and her colonies must be speedily and firmly laid in proper banking laws which will result in enabling her merchants to do business with the people of the colonies without the disadvantages existing at present.

The lamentable lack of proper international banking facilities, under which the merchants of the United States have so long labored, has now become a serious hindrance to the speedy adjustment of our trade relations to the new advantages afforded by territorial expansion. For years before the outbreak of the war with Spain the necessity of providing proper banking facilities for our trade with

South American countries had been recognized and widely proclaimed by the business interests of the country. These facilities are now not only more important than formerly to our business interests, but at present governmental as well as trade necessities demand legislation.

In April, 1890, the International American Congress, held at Washington, discussed the needs of better banking facilities between the American republics, and made recommendations in connection therewith which received the indorsement of President Harrison and Mr. Blaine, the Secretary of State. In furtherance of this object several bills have been favorably reported from the Committee on Banking and Currency of the House. As yet, however, these efforts, made in the interest of trade stimulation, have not resulted in the enactment of law. Our present national banking laws do not authorize the establishment of American international or American intercolonial banks, nor could any national bank establish a branch in a territory or colony such as Porto Rico or Hawaii, even if our present laws unchanged were extended over it.

While it is questionable whether Congress should legalize the establishing of foreign or colonial branches by national banks transacting business under the present law, that it should at least pass laws authorizing, under proper restrictions, the general incorporation of banks organized to carry on international and intercolonial banking, as distinguished from domestic banking, admits of no reasonable doubt.

Unless some such legislation is provided, the American exporter and importer, in his trade with America's own colonies, will be compelled to endure all the disadvantages under which, in all South American markets, and in many other markets of the world, he now labors in his competition with foreigners enjoying superior banking facilities.

When, by means of international banks and their branches, the proper banking facilities are afforded those engaged in foreign trade, they transact their business with these banks in much the same manner as the domestic shippers of the United States transact business with our present banks.

The American, in his South American trade, as compared with the foreigner in the same line of business, is subjected to the same relative disadvantages as are experienced by a domestic shipper without banking facilities, as compared with another who possesses them.

Domestic dealers in supplies, in good credit, may make contracts with domestic wholesale purchasers in good credit, for the sale and shipment of goods, for which the consignee gives his acceptance, payable at different intervals, sometimes months after the delivery to him of the shipment. The consignor discounts this accepted draft, given him for the goods, with his bank, thus receiving his capital at once for reinvestment, and enabling him to transact a larger business than if the capital invested in the goods was locked up until the maturity of the acceptance. On the other hand, the consignee has the difference between the time of the arrival of the shipment and the maturity of the draft to sell the goods, and to collect from the purchaser all or a portion of the amount necessary to pay the draft.

The situation of the shipper without banking facilities is in sharp contrast. He must ordinarily sell for cash, instead of on credit, to the consignee, as he needs his capital in most cases for immediate reinvestment. As a result, in his competition with his more favored rivals, he is not only compelled to accept lower prices, involving smaller margins of profits, but he must do a smaller business on the same capital invested.

Thus, compared with the English exporter, who, when his goods are shipped, can receive advances from an English international bank upon the credit of his bills of lading and of the foreign consignee, concerning whose credit the home bank, through its foreign branch, is well advised, the American shipper, in the majority of instances, is denied such privileges, and must await entire, instead of partial, reimbursement until the arrival of the goods at the foreign market and the collection of the draft for the purchase price made at the time of shipment.

In addition to this disadvantage, the American exporter and importer, in his trade with South American countries, transacts all his business of consequence through English banks in terms of English money, paying the rates of exchange fixed by these foreign institutions.

The foreign branches of American international and intercolonial banks would obviate many of these difficulties, and would become themselves valuable mediums of introduction of American enterprise into colonial and foreign fields.

The present situation of trade and finance in Porto Rico is deplorable. Credit in business is sparingly used, and under most primitive and exacting conditions. While some lines of credit through foreign connections are extended to those engaged in the import and export business, no credits of consequence are extended to this class of trade by Porto Rican banks. The primitive conditions and disadvantages under which business has heretofore been transacted in Porto Rico have prevented the establishment of Porto Rican branches by foreign banks, and under the new era the American banker, in entering this field, will not have the competition of a long established branch bank business, such as exists in most South American countries. That this will prove to be an advantage to

American interests from one standpoint admits of little doubt, provided that new banking laws are framed by Congress authorizing the establishment of international and intercolonial banks, which can perform those numerous and indispensable offices in the facilitation and extension of business between the States and the colonies, which domestic banks now perform in the interest of business between the citizens of the States themselves.

The present banking business, in connection with American trade in Porto Rico, is done mainly through one house with a New York branch. This firm of bankers has as agents various commercial houses in different parts of Porto Rico. Commission merchants are now transacting almost the entire business of this country with Porto Rico. They represent the merchants of the island, and secure or furnish them credit, receiving commissions for their services. Thus the credits granted in connection with the export and import business of the island are almost wholly by commission men. With proper banking facilities, and after the final establishment of a fixed rate of exchange between the present Porto Rican coin and our own money, this country should control almost the entire trade of all kinds in the island.

The determination of the relation of any new banking system, to the existing banks and domestic credits of Porto Rico, differing as they do from those of this country, involves many difficult questions; and legal provision for the appointment of a commission, especially charged with the examination of the conditions of domestic banking and finance on the islands and with the recommendation of the proper form of laws in connection therewith, is respectfully urged upon Congress.

In Hawaii, business conditions are far different. The four commercial banks of Honolulu have adopted largely

American methods; and the customs of general business are now American to such an extent that the present National Banking Act might well be extended over the island, so far as its domestic banking is concerned. While the present banks, with their correspondents in the United States, now provide reasonably well the exchange and other credits necessary to accommodate the business between the island and the United States, the establishment of intercolonial banks under new laws of Congress would probably be found of advantage to existing trade relations.

In view of the conditions and necessities of our trade with our new Territories of Porto Rico and Hawaii, and with other South American countries as well as with those other territories over which our country must exercise a more or less extended control, the Comptroller earnestly recommends the passage of laws authorizing the incorporation of banks, organized for the purpose of carrying on international and intercolonial branch banking.

RECOMMENDATIONS RELATIVE TO BANK-NOTE CURRENCY

(From Report as Comptroller of the Currency, 1899)

THERE is one reform needed in the bank-note currency of the United States, concerning the general principle of which there seems little room for honest controversy. This is a provision for an emergency circulation which can be used in those seasons of the year in which the moving of crops requires an increase in the circulating medium, and to lessen the disastrous effects of the immense liquidation of credits incident to a financial panic. The widespread ruin and misery affecting all classes of citizens and all kinds of business, which results from an industrial and financial panic, is such that any measure designed to forestall or to lessen its destructive power should properly demand the highest degree of consideration. A time of active commerce and normal financial conditions such as we are enjoying at present is most opportune for the deliberate and careful discussion of measures which, if adopted now, may in a measure relieve the embarrassments above indicated and the keenness of the distress of commercial and industrial interests incident to such panics as those of 1873 and 1893.

It is true that the enactment of legislation, by which the credit of our governmental currency may be protected from the effects of deficient revenues and from the influences of commercial panic, is important as a measure of governmental policy at this time. The panic of 1893 and an ensuing period of deficiency in governmental revenue demonstrated that fact; but they likewise demonstrated the necessity of circulation of some nature by the banks which

could be used to supply the demands during such an extreme emergency for a liquidating medium whose existence would tend to protect solvent institutions of all kinds from forced bankruptcy resulting from a money panic. The object of such a circulation is neither to provide profits to the banks nor to serve as a basis for the expansion of commercial credits under normal conditions. It would be to the country at large what the clearing-house certificates have proved to be in times of panic in some of our larger cities.

The necessity for such circulation, designed for the mutual protection of banks and the public in times of panic and money stringency, and so heavily taxed as to compel its retirement after the period of acute demand for money is passed, is made clearer by a reference to conditions prevailing in 1893.

The deposits of the national banks of the country between May 4 and October 4, 1893, were reduced in the sum of $378,767,691; the contraction in balances on deposit with other banks was $51,198,856; the contraction in stocks and securities was $2,177,912. The banks took out $31,265,616 of new circulation and borrowed $36,615,092 in their efforts to meet the general demands upon them. As a matter of fact, the necessary delay incident to printing national bank-notes by the Government after receiving the order for circulation by the banks, amounting on the average to twenty-five days, prevented the issuance of a larger circulation at this time, the acute crisis having passed by the time the notes were ready for delivery, and the order for the notes canceled by the banks in consequence.

The amount of orders canceled for this cause during the period above named is estimated at $11,000,000. Even with the aid of this additional circulation and borrowing, the national banks of the country, to meet this drain in deposits, were compelled to contract their loans during

this period in the sum of $318,767,691, taking this immense amount from the productive industries of the country and carrying disaster, not only to employer and employee, but to every class of our citizens.

The records of this office show that with our banking system as a whole the money stringency incident to a financial panic is soon over. At most it is a matter of but a few months. The crisis of a panic once passed, the arrested wheels of general business start moving very slowly, and the unproductive and unloaned capital of the country stagnates in the banks. In May, 1893, during the panic, the average reserve of the banks of the United States was 26.4 per cent, and in December, 1893, 35.7 per cent. In May, 1893, the banks of New York City held in reserves of only 28.5 per cent, and in December, 1893, they held 41.2 per cent, or $66,663,000 above the required legal reserve of 25 per cent.

The facts prove that emergency circulation which could be used to lessen the disastrous effects of the liquidation incident to an industrial and bank panic would be needed for but a few months, and would not remain as a disturbing and unusual factor in business long after its time of maximum influence.

In connection with the recommendations which he embodies hereafter, the Comptroller repeats the recommendation made by him in his last Report to Congress, to wit: —

> For the purpose of allowing elasticity to bank-note issues to protect the banks and the community in times of panic, a small amount of uncovered notes, in addition to the secured notes, should be authorized by law under the following limitations: They should be subjected to so heavy a tax that they could not be issued in normal times for the purpose of profit, but would be available in times of emergency. The tax should be so large upon the solvent issuing banks as to provide a fund, which, in connection with the *pro-rata* share of the assets of an insolvent bank,

would be sufficient to redeem the notes in full, without necessitating any preference of note-holders over depositors of any insolvent issuing bank. The tax should be so large as to force this currency into retirement as soon as the emergency passes. Such a currency could be used only to lessen the evil effects of the too rapid liquidation of credits which are collapsing under a financial panic, but could not be profitably used as a basis of business speculation and inflation. It should be to the business community what the clearing-house certificates are to our cities in times of panic — a remedy for an emergency, not an instrument of current business.

In view of the fact that our national banking system is composed of over thirty-six hundred separate institutions scattered throughout our great country and surrounded by diversified business conditions, the problem of the enactment of such a law, involving as it does a departure to some extent from the principle of a bond-secured circulation, presents grave difficulties, arising partly out of the natural conservatism of our people and from the fact that the plan will be somewhat experimental. That such a law providing for the protection of the business community shall be ultimately passed is of great importance. A marked degree of elasticity, however, is possible of attainment in connection with our present system of bond-secured national bank-notes.

The Comptroller believes that, in accordance with the President's recommendation, national banks should be allowed to issue circulation to the par of the United States bonds deposited by them for circulation, and that, in connection with the law authorizing this, provision can be made for a secured emergency circulation. The object of allowing banks to take out circulation to the par of the bonds is to induce them to furnish for the use of the public a larger amount of circulation than is in existence at present. The present rate of profit to be derived by the banks from their circulation is not sufficient to justify them in

offering a larger amount, but any method of increasing the profits on circulation will result in an increase.

It is true that the authorization of an issue of currency to the par of the deposited bonds, subject to the present rate of tax, is one method of inducing a larger circulation, but it is not the only method. By a modification of the present rate of taxation on bank-notes, coupled with the authorization of issues to the par of the bonds, the same inducements can be offered for a larger circulation and yet provision be made for a secured emergency circulation.

The Comptroller, therefore, would recommend legislation authorizing the issuance of national bank-note circulation to the par of the deposited United States bonds, and that the additional ten per cent circulation thus allowed the banks be subjected to a tax at the rate of two or three per cent per annum for the time used, which will tend to prevent its unrestricted use under normal conditions, and to save it for use at those periods of the year when crops are to be moved, and in those periods of panic when it is most valuable both to the banks and the business public as a means of assisting the general liquidation of credits. With the object of securing an increase in the present bank-note circulation, he would recommend the reduction or abolishment of the present tax of one per cent per year on the circulation to ninety per cent of the deposited bonds — the amount of the reduction in the tax on currency to be collected from the necessary percentage of tax on the capital and surplus of national banks if requisite to the public revenues. To allow the banks to issue up to the par of the bonds, unsubjected to additional tax on the ten per cent extra circulation, will result in their immediately taking out their additional circulation for the purpose of profit. Business credits will be extended and adjusted to correspond with such increase of the currency, and practically

the same inelasticity will characterize our bank-note issues then as now. With the advent of a panic we would have no additional means of lessening the necessity of a call upon the business community to furnish, by the repayment of loans, practically the bulk of the deposits drawn by frightened depositors.

It will be seen from an examination of the calculations given hereinafter that exactly the same rate of profit could be realized by the banks upon circulation to ninety per cent of the bonds deposited, taxed at four ninths of one per cent per annum, as they could realize upon circulation to the par of the bonds at the present tax of one per cent.

It will also be seen that if the tax on the ninety per cent of circulation should be entirely abolished, or shifted to the franchise of banks, that the profit on circulation would be much larger than could be realized upon circulation issued to the par of the bonds subjected to the present tax.

This rate of profit to be realized upon untaxed circulation issued to ninety per cent of the bonds would be so large that upon circulation issued to the par of the bonds it would be necessary to reduce the tax down to three fifths of one per cent before an equal profit upon par circulation could be made.

It will also be noted that exactly the same rates of profit could be made upon ninety per cent circulation taxed one sixth of one per cent as could be made upon par circulation taxed three fourths of one per cent.

In the judgment of the Comptroller these tables show conclusively that by modification in forms of taxation the same relative increase in general bank-note circulation, with an emergency circulation in addition, can be obtained, while only an increase without any elasticity could be obtained under any system of uniform taxation upon par circulation.

For the purpose of indicating that within the range of the possible modification of taxation on a circulation to ninety per cent of the bonds, provision can be made for an emergency circulation of ten per cent to the par of bonds, while amply encouraging the increase in general note circulation desired, the Comptroller summarizes the result of calculations given more in detail hereafter.

Profit in dollars upon circulation issues against a deposit of $100,000, government 4 per cent bonds maturing in 1907, at present price, being the possible amount to be realized under different rates of taxation in addition to 6 per cent on the capital invested in bonds, with money worth 6 per cent

On $90,000 circulation, being 90 per cent of $100,000 bonds, 1 per cent tax on circulation under present laws	$279.88
On $100,000 circulation to par of bonds, uniform 1 per cent tax	779.88
On $90,000 circulation to 90 per cent of bonds, taxed four ninths of 1 per cent, making possible an issue of $10,000 emergency circulation, to be taxed at the rate of 2 or 3 per cent for the time issued	779.88
On $100,000 circulation to par of bonds, uniform tax of three fourths of 1 per cent	1,029.88
On $90,000 circulation to 90 per cent of par of bonds, taxed one sixth of 1 per cent, making possible an issue of $10,000 emergency circulation, to be taxed at the rate of 2 or 3 per cent for the time issued	1,029.88
On $100,000 circulation to par of bonds, uniform tax of three fifths of 1 per cent	1,179.88
On $90,000 circulation to 90 per cent of par of bonds without taxation, making possible an issue of $10,000 emergency circulation to be taxed at the rate of 2 or 3 per cent for the time issued	1,179.88

In the foregoing figures no profit is calculated as accruing upon the emergency circulation.

The Comptroller believes that the levying of a tax of one sixth of one per cent upon circulation to ninety per cent of the par of the bonds and allowing the banks to issue currency to the par of bonds by paying a tax at the rate of two or three per cent per annum on the excess up to the par when outstanding, will result in the desired increase in our

general bank-note issues, and provide a marked degree of elasticity in our circulation.

In this connection the Comptroller cannot properly discuss the question of taxation of banks as related to the public revenues further than to say that the imposition of a tax upon the capital and surplus of the banks to offset any reduction in the tax on currency will remove any objection to his recommendation on the grounds that it lessens the share of the public burden which the banks should properly bear.

In considering the probable effect on the amount of bank circulation outstanding which will result from a change in rates of taxation it must be remembered that the calculation would properly include, if it could be safely made, an estimate of the increased price of government bonds, which will probably be incident to a greater demand for these bonds from the banks seeking profit on circulation under the modified rate of taxation.

This increased price of bonds may be such as to negative to some degree the desired effect of an increased bank-note circulation, since it will tend to lessen the profits on circulation. It must be remembered, however, that this objection can be made to any method of increasing the apparent profits on bank-note circulation, including the method of authorizing issues to par, subject to a uniform tax.

The Comptroller believes that from the passage of laws altering, as suggested, the rate and method of taxation of national bank-notes, an increase of at least $100,000,000 may reasonably be expected.

Based upon our present bond-secured bank-note circulation, which amounts to about $207,000,000 and this added amount, we would have, under such laws, an available bond-secured emergency circulation of at least $30,000,000.

As a summary of his views on this subject, the Comptroller would call attention to the following propositions:—

First. Whether or not legislation be passed providing for an uncovered emergency circulation for needed protection from the disastrous effects of panics, a very much larger degree of elasticity can be imparted to our present bond-secured bank-note currency, thus making it of greater use in seasons of the year in which the demand for currency is above the normal, and of invaluable assistance in times of panic.

Second. This result can be obtained by the enactment into law of the President's recommendation that national banks be allowed to issue to the par of the government bonds deposited by them as security, and by the modification of the present tax upon national banks as follows:—

After determining approximately the lowest rate of profit which will call into circulation the additional amount of national bank-notes deemed necessary for public convenience, this rate of profit should be reached by lessening or shifting to the franchise of banks the present one per cent tax on circulation to ninety per cent of the par of the government bonds securing it. A tax of two or three per cent should then be levied on the excess of circulation over ninety per cent of the bonds, which will make of such excess circulation a secured emergency circulation only to be used when it becomes a public necessity, and not as a means of profit by the banks under normal conditions.

The general increase in bank circulation desired being possible of attainment through the lowering of the tax on the ninety per cent circulation, this additional tax on the ten per cent excess circulation to the par of the bonds will not materially interfere with such general increase, and will only operate to create an emergency circulation of great value.

Third. As the use of rediscounts and bills payable on the part of the Western and Southern banks at certain seasons of the year is regarded as evidencing the need of an elastic circulation, and as bearing upon the question of the measure of relief which may be expected from the bond-secured emergency circulation here recommended, the Comptroller will state that without any general increase in bank-note circulation as a result of new legislation, the possible emergency circulation of $20,000,000 immediately available, based on bonds securing the present circulation, amounts to more than the combined bills payable and rediscounts of all the national banks of the United States outstanding at any time within the last three years.

If the Comptroller's estimate of a possible bond-secured emergency circulation of $30,000,000 be correct, this amount is about double the average combined bills payable and rediscounts of the entire national system outstanding within that period.

As the elastic and uncovered issues of the joint-stock banks of England, Scotland, and Ireland, comprising all the uncovered bank-notes there issued, may be cited as illustrating the advantages of an elastic circulation, the Comptroller would also call attention to the fact that these entire issues are but a small amount more than the $20,000,000 bond-secured emergency circulation which would be immediately available on existing bond deposits in the United States under the legislation recommended. And with an increase in general bank-note circulation, resulting from modified laws, we would probably have a bond-secured emergency circulation in this country larger than the emergency circulation of the joint-stock banks of England, Scotland, and Ireland, which is secured only by the general assets of the banks, without preference over other creditors.

Fourth. Even if a special uncovered emergency circulation be provided, to be used only in case of panics, the plan here suggested of changing the taxation and issues of secured bank-notes will afford an elastic circulation of value in times of money stringency not approaching the severity of a panic. With or without the legislation for the special uncovered emergency circulation, the bond-secured emergency circulation will be of great public use.

Fifth. If provision be made for an uncovered emergency circulation for use in times of panic, subject to a tax so large as to be repressive at all other times, the ten per cent bond-secured emergency circulation herein recommended might be taxed at the rate of two per cent per annum for the time issued instead of at the rate of three per cent, thus allowing its freer use under more normal conditions. But if no uncovered circulation for panics be provided, the more repressive tax of three per cent seems desirable upon the bond-secured emergency circulation.

Sixth. There is no need, under normal conditions, of a large amount of emergency circulation or a high degree of elasticity in bank-note circulation. The immense volume of checks, drafts, and bills of exchange, based upon the assets of banks and often called bank-credit currency, expands and contracts in accordance with the demand of trade and business, and is the medium through which the great bulk of the business of our country is transacted. It is extremely elastic, and varies in amounts at different seasons of the same year. It is generally amply adequate to the business needs of the country, except in times of disturbed confidence and financial panic.

Seventh. The issuance of bank-asset notes under normal conditions and in the present development of our banking system cannot be justified by the plea that without them the needed elasticity of bank-note currency cannot

PROFIT ON NATIONAL BANK CIRCULATION, SECURED BY $100,000 UNITED STATES FOUR PER CENT BONDS OF 1907 COSTING $113,125, MONEY BEING WORTH SIX PER CENT; FIRST, WITH CIRCULATION NINETY PER CENT OF BONDS, TAX ONE PER CENT; SECOND, CIRCULATION PAR OF BONDS, TAX ONE PER CENT; THIRD, CIRCULATION NINETY PER CENT OF BONDS, TAX FOUR NINTHS OF ONE PER CENT; FOURTH, CIRCULATION PAR OF BONDS, TAX THREE FOURTHS OF ONE PER CENT; FIFTH, CIRCULATION NINETY PER CENT OF BONDS, TAX ONE SIXTH OF ONE PER CENT; SIXTH, CIRCULATION PAR OF BONDS, TAX THREE FIFTHS OF ONE PER CENT; AND SEVENTH, CIRCULATION NINETY PER CENT OF BONDS, WITH NO TAX

Amount of circulation on $100,000 in bonds costing $113,125	*Receipts*			*Deductions*				*Net receipts*	*Interest on capital invested*	*Yearly profit on circulation in excess of interest on the investment*
	Interest on circulation at 6 per cent	*Interest on bonds*	*Gross receipts*	*Tax*	*Expenses*	*Sinking fund to retire premium on bonds*	*Total deductions*			
90 %, $90,000	$5,400	$4,000	$9,400	1 %, $900	$62.50	$1,370.12	$2,332.62	$7,067.38	$6,787.50	$279.88
Par, 100,000	6,000	4,000	10,000	1 %, 1,000	62.50	1,370.12	2,432.62	7,567.38	6,787.50	779.88
90 %, 90,000	5,400	4,000	9,400	4/9 of 1 %, 400	62.50	1,370.12	1,832.62	7,567.38	6,787.50	779.88
Par, 100,000	6,000	4,000	10,000	3/4 of 1 %, 750	62.50	1,370.12	2,182.62	7,817.38	6,787.50	1,029.88
90 %, 90,000	5,400	4,000	9,400	1/6 of 1 %, 150	62.50	1,370.12	1,582.62	7,817.38	6,787.50	1,029.88
Par, 100,000	6,000	4,000	10,000	3/5 of 1 %, 600	62.50	1,370.12	2,032.62	7,967.38	6,787.50	1,179.88
90 %, 90,000	5,400	4,000	9,400	No tax	62.50	1,370.12	1,432.62	7,967.38	6,787.50	1,179.88

be obtained. Nothing except the avoidance of panic can at present justify any experiments with bank-asset currency. When authorized for use in times of panic the notes should be so heavily taxed that they can circulate only while a panic lasts, and like clearing-house certificates should be a remedy simply for a rare emergency.

REPEAL OF SECTION 9 OF ACT OF JULY 12, 1882

Section 9 of the Act of July 12, 1882, prohibits the increase of bank circulation within six months after the deposit of lawful money to reduce circulation. The repeal of this section is necessarily precedent to any reform in national banking currency which provides for a greater elasticity, and is recommended. A plethora of money leads the banks to retire their currency, and when a money stringency afterwards occurs there should be no unnecessary obstructions to an increase by the banks of their note issues, then doubly important to the needs of the business community.

REMEDY FOR DELAY IN FILLING ORDERS FOR BANK-NOTE CURRENCY

The Comptroller would respectfully call attention to the very great importance of an appropriation to increase the size of the vaults for the storage of incomplete national bank currency in this Bureau in order to enable it to respond to the demand of the banks and the business community for circulating notes in case of sudden need. With the present inadequate facilities for storage, a sufficient amount of incomplete currency cannot be kept on hand, and as it requires from twenty-five to thirty days to complete an order received from a bank for bank-note plate printing, the public and the banks are frequently put to great inconvenience by this necessary delay. In the panic

of 1893 the suffering and damage to which the business community and the banks of the country were put, because of the fact that there had not been provided for this Bureau a few feet additional of needed storage room, can be inferred from the fact that of total orders for currency during the panic, amounting to $42,000,000, orders for over $11,000,000 were countermanded, the crisis of the money panic having passed before the twenty-five days necessary for the preparation of the currency had expired. With additional storage room, the Bureau will be enabled to keep on hand a sufficient stock of incomplete currency, so that orders from the banks can be filled upon receipt without delay.

LIMITATION OF LOANS

In his last Report the Comptroller called attention to the desirability of a modification of the law limiting certain loans to ten per cent of the capital of the bank, and pointed out that the effect of this provision was to encourage the making of loans, large in proportion to their total assets, in smaller banks and smaller communities, while it prohibited such loans in the larger cities where they could be made in accordance with the urgent demands of trade and consistent with the soundest banking principles. He pointed out that the defective and unequal working of the present provision was due to the greater ratio borne by banking resources to banking capital in the larger communities as compared with the like ratio in smaller communities.

The present section of the law regulating excessive loans should be so altered as to allow the banks of larger communities to have more nearly the privilege of loaning a given per cent of their total assets to one individual, which now belongs, under a strict compliance with the present provision, to the banks of the smaller communities. The

law against excessive loans should then be made enforceable by the enactment of an amendment providing a penalty for infractions.

The Comptroller, as before, would recommend that section 5200 of the Revised Statutes be amended by adding after the words "shall at no time exceed one tenth part of the amount of the capital stock of such association actually paid in" the following words: —

Provided, That the restriction of this section as to the amount of total liabilities to any association, of any person, or of any company, corporation, or firm for money borrowed, shall not apply where a loan in excess of one tenth part of the capital stock shall be less than two per cent of the total assets of said bank at the time of making said loan. Said loan shall be at all times protected by collateral security equal to or greater in value than the excess in the amount of said loan over one tenth of the capital stock.

A strict penalty should then be provided for infractions of the amended section.

NATIONAL BANKS OF $25,000 CAPITAL

In accordance with the recommendation of the President and the Secretary of the Treasury, and for the purpose of affording our smaller communities the business advantages incident to increased banking facilities, the Comptroller would urge the enactment of laws authorizing the organization of national banks with a capital of $25,000 in towns of two thousand or less population.

NATIONAL BANK EXAMINATIONS

The work of the corps of national bank examiners during the year is worthy of special commendation. It is of course improper, for obvious reasons, for the Comptroller to point out the specific cases where, through the instrumentality of the examiners and their notification to directors of danger-

ous practices on the part of active bank officers, institutions have been protected from grave danger of insolvency.

During the year a system of special examinations has been on trial with advantageous results in marked instances. There has been utilized throughout the country special expert examiners, and an effort is being made through them better to supervise the work of local examiners as well as to add to the information of the Comptroller as to the condition of the national banks. The exchange of lists of banks for examination among examiners has been more frequent than heretofore, although the more exact knowledge of local credits, possible to a local examiner, limits the extent to which this can be done consistent with the best results.

In connection with the efforts of the Comptroller to determine the safety of loans, examiners have been requested to keep a convenient and uniform tabulation of approximate lines of larger credits extended by the banks for his reference.

The benefit to the service resulting from the fund for special examinations of national banks, an increase in which was granted by Congress, as recommended in the last report of the Comptroller, has been material. By means of this fund investigations were conducted which resulted in decisive action by the Comptroller in relation to the affected banks, which investigations and resultant information would have been otherwise impracticable. While this fund is small, the benefits derived from it merit special mention.

The Comptroller recommends an increase in the annual fund provided for examinations of bank-note plates, and for the compensation of examiners engaged in special examinations of $2000, making the fund $5000 instead of $3000, as at present.

INTERNATIONAL AND INTERCOLONIAL BANKING

In his last Report the Comptroller called attention to the need of laws authorizing and regulating banks for the transaction of international and intercolonial banking, and recommended the establishment of a commission to investigate banking and commercial conditions in the new possessions of the United States with a view to obtaining more exact knowledge of the nature of the banking legislation essential to the best interests of these new possessions, and to our own country in its business relations with them. The past year has emphasized the need of such legislation, and the Comptroller again calls attention to the disadvantage at which our country is placed by the lack of proper banking facilities, not only in South American commerce, but in our commerce with our new possessions.

The need of banking facilities to care for the rapidly growing business between the United States and the territories over which she now exercises sovereignty is such that of necessity banking institutions have already been established over which there is little or no governmental supervision. The earlier that intelligent and careful consideration can be given by Congress to the question of banking legislation for the new possessions, both for the local regulation of their domestic systems and the regulation of their banking relations with the United States, the better it will be for the domestic prosperity and trade relations of both.

For the purpose of reference, and through the courtesy of the Secretary of the Treasury and the Secretary of War, and others, the Comptroller publishes, in an appendix to this report, information relative to financial conditions in Cuba and Porto Rico, including extracts from the report of Special Commissioner Edward W. Harden, who has gath-

ered information relative to financial and banking conditions in the Philippines, all of which indicates the necessity and desirability of early action by Congress upon this important subject.

The Comptroller would renew his recommendations of one year ago that laws be passed authorizing the incorporation of banks organized for the purpose of carrying on international and intercolonial banking, as distinguished from domestic banking, and that as preliminary thereto a commission be established to investigate local conditions and report upon the nature of the legislation best adapted for the interests of this country and her new possessions. In this connection he would again call attention to the existing situation by quoting briefly from his last Report: —

> Unless some such legislation is provided, the American exporter and importer, in his trade with America's own colonies, will be compelled to endure all the disadvantages under which, in all South American markets and in many other markets of the world, he now labors in his competition with foreigners enjoying superior banking facilities.
>
> When, by means of international banks and their branches, the proper banking facilities are afforded those engaged in foreign trade, they transact their business with these banks in much the same manner as the domestic shippers of the United States transact business with our present banks.
>
> The American in his South American trade, as compared with the foreigner in the same line of business, is subjected to the same relative disadvantages as are experienced by a domestic shipper without banking facilities, as compared with another who possesses them.
>
> Domestic dealers in supplies, in good credit, may make contracts with domestic wholesale purchasers in good credit for the sale and shipment of goods, for which the consignee gives his acceptance, payable at different intervals, sometimes months after the delivery to him of the shipment.
>
> The consignor discounts this accepted draft, given him for the goods, with his bank, thus receiving his capital at once for rein-

vestment and enabling him to transact a larger business than if the capital invested in the goods was locked up until the maturity of the acceptance. On the other hand the consignee has the difference between the time of the arrival of the shipment and the maturity of the draft to sell the goods and to collect from the purchaser all or a portion of the amount necessary to pay the draft.

The situation of the shipper without banking facilities is in sharp contrast. He must ordinarily sell for cash, instead of on credit, to the consignee, as he needs his capital in most cases for immediate reinvestment. As a result, in his competition with his more favored rivals he is not only compelled to accept lower prices, involving smaller margins of profit, but he must do a smaller business on the same capital invested.

Thus, as compared with the English exporter, who, when his goods are shipped, can receive advances from an English international bank upon the credit of his bills of lading and of the foreign consignee, concerning whose credit the home bank, through its foreign branch, is well advised, the American shipper, in the majority of instances, is denied such privileges, and must await entire, instead of partial, reimbursement until the arrival of the goods at the foreign market and the collection of the draft for the purchase price made at the time of shipment.

In addition to this disadvantage, the American exporter and importer in his trade with South American countries transacts all his business of consequence through English banks in terms of English money, paying the rates of exchange fixed by these foreign institutions.

INSOLVENT NATIONAL BANKS

At the date of the last Annual Report of this Bureau the number of national banks remaining in the hands of receivers was 158. During the past year 12 banks have been placed in the hands of receivers, and 35 receiverships terminated, leaving at the present time 135 insolvent banks in the hands of receivers appointed by the Comptroller. The assets of these insolvent national banks at the date of the present report are of the nominal value of $39,849,770.

Special attention has been given to the reduction of expenses of the several receiverships; and in the remaining receiverships, as compared with last year, a total reduction of about $50,000 in salaries, legal and other annual expenses, has been attained. There are at this time nineteen receiverships in the hands of one receiver at Washington. The assets of this latter class of banks are nominal in value and by the plan adopted a considerable additional annual saving has been made, which goes to increase the dividends to creditors.

In addition to the number of receiverships which have been completely liquidated, 38 receiverships have been placed on the inactive list. In such cases the fixed salaries of the receivers are terminated, and they are allowed compensation only for services actually performed. There are at present 94 receivers who have in charge the assets of the 135 insolvent banks, a number of such receivers administering upon the affairs of two or more banks.

The 12 national banks which failed during the year makes a total of 587 failures from the organization of the Bureau to the date of this report, including 17 banks restored to solvency.

The policy of consolidating two or more banks and placing them in the hands of one receiver in the same city or locality has been found to be satisfactory, inasmuch as it results in the saving of salaries of receivers and in a lessening of legal and other expenses. The administration of all insolvent banks is well advanced, and within a few months a number of receiverships will be closed.

In the appendix will be found a table showing the nominal value of the assets of the banks that have been or are being liquidated by receivers, with the collections, disbursements, claims proved, and dividends paid. For the purpose, however, of indicating the general cost of admin-

istration of the affairs of insolvent banks in the hands of the Government there is presented herewith a summary of the tables given in detail in the appendix.

Nominal assets at date of suspension

Estimated good	$79,376,277
Estimated doubtful	71,154,423
Estimated worthless	53,538,125
Additional assets secured since suspension	31,567,953
Total assets	$235,636,778

Disposition of assets

OFFSETS ALLOWED and settled	$17,436,261
Losses on assets compounded or sold under order of court	70,721,452
Nominal value of assets returned to stockholders	5,966,121
Nominal value of remaining assets	39,894,770
Collected from assets	101,618,174
Total	$235,636,778
Collected from assets as above	$101,618,174
Collected from assessments upon shareholders	16,166,815
Total collections from all sources	$117,784,989

Disposition of collections

Loans paid and other disbursements	$21,106,742
Dividends paid	83,087,236
Legal expenses paid	3,571,685
Receivers' salaries and all other expenses	6,095,799
Cash on hand	2,604,290
Cash returned to stockholders	1,319,237
Total	$117,784,989
Total amount assessed against shareholders	$37,032,070
Total amount of claims proved	127,002,895
Percentage of collections from assets, including offsets allowed	60.82
Percentage of collections from assessments upon stockholders	43.65
Percentage of legal expenses to collections from all sources, including offsets	2.64
Percentage of other expenses to collections from all sources, including offsets	4.51
Percentage of total expenses to collections from all sources, including offsets	7.15

RULING AS TO SECOND ASSESSMENT UPON STOCKHOLDERS AND REBATE TO STOCKHOLDERS IN CASE OF INCORRECT ASSESSMENTS

Since the inauguration by the Comptroller of the rule of making a second assessment upon stockholders of an insolvent national bank when the first assessment, through miscalculation of the value of the assets, was less than the legal liability of the stockholders, and of rebating to the stockholders any excess beyond their legal liability which had been mistakenly collected through like error, as was delineated in the Report of 1898, the stockholders of ten insolvent banks have been subjected to a second assessment aggregating in amount the sum of $386,000. In the same period of time there has been rebated to stockholders of six insolvent banks a sum aggregating $46,831.37 in cases where the amount realized from the first assessment was greater than the individual liability of each stockholder.

The power of the Comptroller, under his ruling, to make the second assessment has been tested in four courts of competent jurisdiction. In two different Circuit Courts of the United States and in the Circuit Court of Appeals of the Ninth Circuit the action of the Comptroller has been sustained, and in one Circuit Court of the United States the power of the Comptroller to make subsequent assessments was denied. The last-mentioned case will be appealed to the Circuit Court of Appeals.

AMENDMENTS TO THE BANKING LAWS RECOMMENDED

(From Report as Comptroller of the Currency, December 3, 1900)

In complying with a provision of law, the Comptroller desires first to call attention to section 1 of the Act of July 12, 1882.

EXPIRATION OF CHARTERS OF NATIONAL BANKS AND EXTENSION OF CORPORATE EXISTENCE

Under the provisions of section 1 of the Act of July 12, 1882, the charters of 1737 national banks have been extended for a term of twenty years from the date of expiration of the period of succession named in their original articles of association. The first of these extended charters will expire on July 14, 1902, and others will follow. The question is thus raised as to whether authority is conferred upon the Comptroller by the above-mentioned section to extend the corporate existence of a bank for a second term of twenty years from the date of expiration of the period of its first extension or whether under present law an association is limited to one extension of twenty years from the expiration of the period of succession named in the original articles of association.

Section 1 of the Act of July 12, 1882, under which such extensions are granted, reads as follows: —

> That any national banking association organized under the acts of February twenty-fifth, eighteen hundred and sixty-three, June third, eighteen hundred and sixty-four, and February fourteenth, eighteen hundred and eighty, or under sections fifty-one hundred and thirty-three, fifty-one hundred and thirty-four, fifty-one hundred and thirty-five, fifty-one hundred and thirty-

six, and fifty-one hundred and fifty-four of the Revised Statutes of the United States may, at any time within the two years next previous to the date of the expiration of its corporate existence under present law and with the approval of the Comptroller of the Currency, to be granted as hereinafter provided, extend its period of succession by amending its articles of association for a term of not more than twenty years from the expiration of the period of succession named in said articles of association, and shall have succession for such extended period unless sooner dissolved by the act of the shareholders owning two thirds of its stock, or unless its franchise becomes forfeited by some violation of law, or unless hereafter modified or repealed.

While it will be observed that this act does not in express terms limit extensions to one period of twenty years, the implication to that effect is sufficiently clear to raise a doubt as to the Comptroller's authority to grant the second extension.

In this view of the case, without additional legislation authorizing a further extension, a bank desiring to continue in business under the national system whose corporate existence has been once extended will be compelled to go into liquidation at the expiration of the period of its extension and reorganize as a new association.

This will, of course, render necessary the complete winding-up of the affairs of the expiring bank, the retirement of its circulation, the withdrawal of its bonds, and the issuing of a new certificate of authority by the Comptroller, with a distinctively new title and charter number, as is at present the case with an entirely new organization. While the reorganized association might continue to be in all respects the same bank, with practically the same stockholders, directors, and officers, the legislation hereinafter recommended would render unnecessary these steps, which would be attended with inconvenience both to the business public and the banks.

I therefore respectfully recommend an amendment of section 1 of the Act of July 12, 1882, authorizing the Comptroller of the Currency to extend for a further period of twenty years, under the conditions and limitations imposed by said act, the charter of such expiring association as may desire to continue in the national banking system.

Such legislation, to be effective, should be enacted into law at the earliest possible date to give associations desiring to avail themselves of its provisions ample time for the preliminary action necessary to an extension before their charters lapse.

As before stated, the corporate existence of 1737 banks, with capital aggregating $417,628,115, has been extended since the passage of the Act of July 12, 1882. During the year ended October 31, 1900, there were forty-five extensions, the capital involved being $6,942,000. A list of the seventy-four associations whose corporate existence will terminate during the coming year will be found in the appendix. The first bank to reach the end of its second term of corporate existence is the First National Bank of Findlay, Ohio, the date of the termination being July 14, 1902. Between that date and the end of that year thirty-six associations which have had their charters extended will expire by limitation.

RESTRICTIONS UPON LOANS TO DIRECTORS AND EXECUTIVE OFFICERS OF BANKS

During the past year the Comptroller has made an investigation into the matter of loans of national banks to directors and officers, with a view to gathering information bearing on a proposed amendment to the National Banking Act placing additional restrictions upon such loans. The records of this office indicate that large loans to directors and executive officers of banks have been the cause of a

large percentage of the failures of national banks in the country, and that the restrictions of the present law are not sufficient to enable the Comptroller properly to check in some cases an undue tendency of those in executive authority to misuse their powers for personal purposes.

It is the belief of the Comptroller that additional restrictions should be placed upon the power of directors and executive officers of a national bank to borrow the funds intrusted by the depositors and stockholders of a bank to their management; and an investigation into the extent to which such loans are made emphasizes the desirability of such legislation.

In regard to the proportion of failures attributable to excessive loans to officers, it appears that of the 370 national bank failures since the organization of the system, 5 were attributable exclusively to excessive loans to officers and directors; 22 to excessive loans to officers and directors and depreciation of securities; 8 to excessive loans to officers and directors and investments in real estate; 15 to excessive loans to officers and directors, fraudulent management, and depreciation of securities; and 12 to excessive loans to officers, directors, and others, and fraudulent management. In other words, 62 failures, or practically 17 per cent of the total failures, were due to excessive accommodations to officers and directors and the other causes mentioned.

The large percentage of these failures attributed to improper loans to directors and officers and the consideration of a proper provision of law to protect the business community hereafter led to the investigation of all directors' loans now outstanding in the national banks of the country, the results of which are given herewith.

This investigation shows that on June 29, 1900, the date of the Comptroller's call for a statement of condition from the national banks of the country, there were 28,709 direc-

tors of national banks, of which 18,534 were directly or indirectly indebted to national banks under their management. The aggregate sum owed by these 18,534 borrowing directors and 2279 officers and employees who were not directors was $202,287,441.

The total loans and discounts of the national banks of the country at this time were $2,623,512,200. The liability of directors and employees was, therefore, 7.71 per cent of this amount.

The capital stock of the national banks of the United States on this date was $621,536,461. The direct and indirect liability of directors, officers, and employees of national banks, therefore, amounted to 32.55 per cent of this sum.

The stock owned in national banks by the 18,534 borrowing directors amounted to $114,759,300. The direct loans of officers and directors amounted to $115,094,157 and their indirect liabilities to $87,193,284.

In the New England States, Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut, in 563 national banks, of $137,460,520 capital, the total number of directors on June 29, 1900, was 4258, of which 2668 were indebted directly or indirectly in a sum aggregating $31,897,830.

In the Eastern States, New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia, in 1001 national banks of $204,982,745 capital, the total number of directors on June 29, 1900, was 9127, of which 6270 were indebted directly or indirectly in a sum aggregating $82,289,446.

In the Southern States, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Texas, Arkansas, Kentucky, and Tennessee, in 568 national banks of $67,149,467 capital, the total number of directors on June 29, 1900, was 4256, of

which 2909 were indebted directly or indirectly in a sum aggregating $23,436,304.

In the Middle States, Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri, in 1094 national banks of $161,698,927 capital, the total number of directors on June 29, 1900, was 7698, of which 4928 were indebted directly or indirectly in a sum aggregating $51,406,835.

In the Western States, North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, New Mexico, Oklahoma, and Indian Territory, in 384 national banks of $30,931,552 capital, the total number of directors on June 29, 1900, was 2592, of which 1333 were indebted, directly or indirectly, in a sum aggregating $6,690,881.

In the Pacific States, Washington, Oregon, California, Idaho, Utah, Nevada, Arizona, and Alaska, in 122 national banks of $19,313,250 capital, the total number of directors on June 29, 1900, was 778, of which 426 were indebted, directly or indirectly, in a sum aggregating $4,008,402.

While these tables do not necessarily indicate that national banking officers and directors as a whole abuse their privileges, and many of these directors' loans are among the safest owned by the creditor banks, the Comptroller believes the tables show clearly the great importance of a properly framed law placing additional restrictions and safeguards around these loans, in which, the history of the banking system teaches, is involved the greatest danger of the improper and lax use of banking funds.

The necessity for some amendment to the National Banking Act restricting loans by banks to their officers and employees has long been recognized by this office, as is evidenced by the recommendations on the subject of my predecessors in their Annual Reports to Congress. While the need for such legislation has been generally admitted, it has been found difficult to determine precisely what

restrictions should be imposed, owing to the varying circumstances under which such loans are granted.

Comptroller Lacey in his Report for 1891 recommended that: —

> The active officers of a bank be excluded from incurring liabilities to the association with which they are connected, and that the direct and indirect liabilities of a director be confined to 20 per cent of the paid-up capital.

Comptroller Hepburn in his Report for 1892 recommended: —

> That the law be so amended as to prohibit officers or employees of a bank from borrowing its funds in any manner, except upon application to and approval by the board of directors.

Comptroller Eckels in his Report for 1893 recommended: —

> That no executive officer of a bank or employee thereof be permitted to borrow funds of such bank in any manner, except upon application to and approval by the board of directors.

In formulating provisions of law restricting loans to executive officers and directors it is important not to make them so unreasonable as to drive from such service the active, responsible, and honest business men of the country. The problem is to devise such restrictions for the safety of the depositors as will discourage improper loaning to directors, while not injuring the depositors by discouraging to too great an extent the assumption of the duties of bank directorship by the active and responsible members of the business community.

Primarily, the law should have in view the safety of the depositors, and it should be recognized that their safety is as much endangered by the passage of a law which would drive good directors from the service as by the existence of a law which does not sufficiently restrict the opportunity of dishonest directors to abuse the powers of their position.

It seems plain to the Comptroller that any law upon this subject should make a distinction in the nature of the restrictions upon directors who are not officers which will not involve as much of a delay in the making of loans to them as in the making of loans to the executive officers of a bank, since the latter have the greater opportunity and latitude for improper methods in the use of trust funds.

The Comptroller gives herewith a copy of the bill introduced at the last session of Congress by Hon. Marriott Brosius, chairman of the Committee on Banking and Currency (H. R. 12,043, Fifty-Sixth Congress, first session), which has had his careful consideration, and the passage of which with some additions he earnestly recommends. This bill has been drawn so as to insure a greater degree of safety in loans to directors and officers with what is believed to be a minimum of inconvenience to such officers consistent with the safety of such transactions. It properly recognizes the distinction in the relations of directors to a bank and those sustained by executive officers.

It will be noted that the provision made by this bill for the fixing of a line of credit for each director in advance reduces to a minimum the inconvenience of the greater supervision proposed. After such a line of credit has been fixed by the board of directors for an individual director, he will be no more hampered within that limit under the proposed law than he is at present.

A BILL FOR THE BETTER CONTROL OF AND TO PROMOTE THE SAFETY OF NATIONAL BANKS

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, —

SECTION 1. That no national banking association shall make any loan to its president, its vice-president, its cashier, or any of its clerks, tellers, bookkeepers, agents, servants, or other persons

in its employ until the proposition to make such a loan, stating the amount, terms, and security offered therefor, shall have been submitted in writing by the person desiring the same to a meeting of the board of directors of such banking association, or of the executive committee of such board, if any, and accepted and approved by a majority of those present constituting a quorum, and then not in excess of the amount allowed by law. At such meeting the person making such application shall not be present. The said acceptance and approval shall be made by a resolution, which resolution shall be voted upon by all present at such meeting answering to their names as called, and a record of such vote shall be kept and state separately the names of all persons voting in favor of such resolution, and of all persons voting against the same, and how each of the persons voted. In case such proposition shall be submitted to the executive committee, the resolution and its vote thereon shall be read at the next meeting of the board of directors and entered at length in the minutes of such directors' meeting.

SEC. 2. That every president, vice-president, director, cashier, teller, clerk, or agent of any such association who knowingly violates section one of this act, or who aids or abets any officer, clerk, or agent in any such violation, shall be deemed guilty of a misdemeanor, and shall be punished by a fine of not more than five thousand dollars, or by imprisonment not more than five years, or by both.

SEC. 3. That the board of directors of any national banking association may at any regular meeting fix by resolution the limit of credit which shall be determined by a yea and nay vote, and the names of those voting for and against shall be entered of record in the books of the association. Within the limit of this credit and in the discretion of the executive officers of the association loans may be made to directors without other action by the board. When, however, such limit of credit has not been previously fixed by the action of the board, no loan to a director shall be made unless approved by the board or the executive committee of the bank in the method provided herein for loans to executive officers or in the following manner: An application for a loan, not in excess of the amount allowed by law, to a director may be submitted in writing by the director desiring the same to not less than two additional directors, who shall signify in writing their approval of the acceptance by the bank of said application. A

loan to a director may, in the discretion of the executive officer of the bank, be made in accordance with such written application, accompanied by the written approval of two additional directors as aforesaid. At the time such loan is made said application and approval shall be entered at length in a record book of the bank, and shall be read at the first meeting of the directors following the making of said loan. Any national banking association making a loan to any director in violation of the provisions of this section shall forfeit to the United States a sum equal to double the amount of interest charged by said bank upon such loan, the same to be collected by the Comptroller of the Currency and paid into the Treasury of the United States.

SEC. 4. That each report of every national association made to the Comptroller of the Currency in accordance with the provisions of section fifty-two hundred and eleven of the Revised Statutes of the United States shall exhibit in a schedule to be added thereto, under such classifications and in such forms as the Comptroller of the Currency may direct, the amount of debts due or to become due to such association from its president, vice-president, each of its directors, and from its cashier and any of its clerks, tellers, bookkeepers, agents, servants, or other persons in its employ, as principals, indorsers, sureties, guarantors, or otherwise, in a separate item from the other assets of said bank, and shall also state separately the amount of all debts to such association which are past due and remain unpaid by the aforesaid parties: *Provided*, That nothing contained in this act shall require, or be deemed to require, or permit the publication of such schedule of the debts due or to become due to such association from each of its directors or officers or employees in any statement published in a newspaper as now required by law. No such association shall permit its president, its vice-president, its cashier, or any of its clerks, tellers, bookkeepers, agents, servants, or other persons in its employ to become liable to it by reason of overdrawn account.

SEC. 5. That section fifty-two hundred of the Revised Statutes of the United States be amended so as to read as follows: —

"SEC. 5200. The total liabilities to any association of any person or of any company, corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed one-tenth part of the amount of the capital stock of such association actu-

ally paid in.[1] *But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as money borrowed: Provided,* that the restriction of this section as to the amount of total liabilities to any association of any person, or of any company, corporation, or firm for money borrowed shall not apply where a loan in excess of one-tenth part of the capital stock shall be less than two per centum of the total assets of said bank at the time of making said loan. Said loan shall be at all times protected by collateral security equal to or greater in value than the excess in the amount of said loan over one tenth of the capital stock."[2]

LIABILITY AS PAYERS, INDORSERS, ETC., OF NATIONAL BANK DIRECTORS, OF OFFICERS AND EMPLOYERS OTHER THAN DIRECTORS; AGGREGATE LOANS AND DISCOUNTS AND CAPITAL STOCK; PERCENTAGE OF LIABILITY AS PAYERS AND INDORSERS, OF DIRECTORS, OFFICERS, AND EMPLOYEES; TOTAL NUMBER OF DIRECTORS; NUMBER OF BORROWING DIRECTORS, OFFICERS, ETC.; NUMBER OF SHARES OWNED BY BORROWING DIRECTORS AND BY OTHER OFFICERS AND EMPLOYEES; TOTAL NUMBER OF BANKS' SHARES, AT PAR OF $100, ON JUNE 29, 1900

Geographical divisions	*No. of banks*	*Liability as payers*		*Liability as indorsers*	
		Directors	*Officers and employees other than directors*	*Directors*	*Officers and employees other than directors*
Total New England States.	563	$18,375,992	$242,172	$13,521,838	$117,016
Total Eastern States.....	1,001	46,995,599	610,825	35,293,847	284,849
Total Southern States.....	568	12,810,718	234,611	10,625,586	174,789
Total Middle States.....	1,094	27,641,516	593,975	23,765,319	132,259
Total Western States.. ..	384	4,522,154	69,901	2,168,727	21,726
Total Pacific States.....	122	2,938,108	58,586	1,070,294	17,034
Total United States.	3,732	$113,284,087	$1,810,070	$86,445,611	$747,673

[1] The provision of the bill printed in italics and which is a part of section 5200, United States Revised Statutes, as it stands at present is omitted in H. R. 12,043, but in the judgment of the Comptroller should be allowed to remain in its present form.

[2] A penalty should be provided for infractions of this section, either personal in its nature or of double the amount of interest charged on such loan, with a method prescribed for collection of such penalty.

Geographical divisions	Total liability of directors, officers, and employees		Total loans and discounts of banks	Per cent of liability as payers, of directors, officers, etc.	Per cent of liability as indorsers, of directors, officers, etc.	Per cent of liability as payers and indorsers, of directors, officers, etc.
	As payers	As indorsers				
Total New England States	$18,618,164	$13,638,854	$407,260,965	4.57	3.35	7.92
Total Eastern States	47,606,424	35,578,696	1,151,623,418	4.13	3.09	7.22
Total Southern States	13,045,329	10,800,375	205,903,624	6.34	5.24	11.58
Total Middle States	28,235,491	23,897,578	687,882,472	4.11	3.47	7.58
Total Western States	4,592,055	2,190,453	112,969,070	4.06	1.94	6.00
Total Pacific States	2,996,694	1,087,328	57,872,650	5.18	1.88	7.06
Total United States	$115,094,157	$87,193,328	$2,623,512,200	4.39	3.32	7.71

Geographical divisions	Total capital stock	Per cent of liability as payers, of directors, officers, etc.	Per cent of liability as indorsers, of directors, officers, etc.	Per cent of liability as payers and indorsers, of directors, officers, etc.	Total number of directors	Number of borrowing directors	Number of shares owned by borrowing directors	Number of shares owned by borrowing officers, etc., other than directors
Total New England States	$137,460,520	13.54	9.92	23.46	4,258	2,668	110,182	130
Total Eastern States	204,982,745	23.22	17.36	40.58	9,127	6,270	368,302	319
Total Southern States	67,149,467	19.43	16.08	35.51	4,256	2,909	161,807	520
Total Middle States	161,698,927	17.46	14.78	32.24	7,698	4,928	376,178	828
Total Western States	30,931,552	14.85	7.08	21.93	2,592	1,333	94,970	387
Total Pacific States	19,313,250	15.52	5.63	21.15	778	426	36,154	95
Total United States	$621,536,461	18.52	14.03	32.55	28,709	18,534	1,147,593	2,279

GENERAL LIMITATION OF LOANS

With the provisions of the National Banking Law as they are at present the proposal to add restrictions upon a certain class of loans unavoidably involves the discussion of the desirability of a change in the present provisions restricting other loans of national banks. It is essential that the Comptroller be given some practicable remedy to enforce restrictive provisions and that the present provision should be so altered as to make its enforcement a matter of greater public advantage. The concurrent discussion of the present provision limiting loans to a single individual to ten per cent of the capital stock of a bank and the proposed provision to limit and safeguard loans to directors and officers will serve to show them in their true relations and to indicate the great importance of a reformation of the National Banking Law in this connection.

The provision of the present law limiting the amount which can be loaned to any one individual or corporation in order to insure a general distribution of loans, and to prevent an improper concentration of a bank's funds in the hands of a few borrowers, is as follows: —

Sec. 5200. The total liabilities of any association, of any person, or of any company, corporation, or firm, for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed one-tenth part of the amount of the capital stock of such association actually paid in. But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as money borrowed.

In my Report for 1898 I discussed in detail the amendment to this section which seems essential, and I reincorporate here the text of that discussion, having altered the accompanying tables and statistics to conform with the

latest reports received from the national banks of the country: —

> Almost as if in admission of the fact that this provision is unscientific and ill adapted to carry into practical effect the great principles of protection to depositors and shareholders, subserved by generally distributed and safe loans, the present law provides no specific penalty against individuals which the Comptroller can apply for violations of this section in the making of excessive loans where such violations do not affect the solvency of the bank nor justify the appointment of a receiver.

A United States Court, under the general provision of the law providing for the forfeiture of the franchises of a bank for any violations of the Banking Act, might adjudicate the question of fact as to such violation, but could apply no other remedy than forfeiture of franchise.

Since the institution of the national banking system the violation of this provision has been common, and the Comptroller, though allowing no known violation to escape his written protest, finds great practical difficulty in his endeavors to enforce this requirement.

On June 29, 1900, the date of a call by the Comptroller for statement of condition of national banks, 1575 banks of the 3732 banks that were active on that date, constituting nearly two fifths of the entire number of banks in the system, reported loans in excess of the limit allowed by section 5200 of the Revised Statutes of the United States.

The principles underlying the present provision of the law are as valuable to depositors and shareholders in their application to the banks of larger communities as to the banks of smaller communities, but the observance of this provision, while not interfering with the current requirements of either of the banks or the public in smaller communities, proves an almost insurmountable obstruction to the business of our larger cities.

The present need is for an amendment to this provision which, while compelling, under penalty, the safe and proper distribution of loans of larger banks, will enable them to loan more nearly the same percentage of their total assets which the present provision allows to small banks. In this way the officers of larger banks can supply the proper needs of the larger communities without disregarding the law, and the Comptroller can hold them under personal penalty to strict observance of the amended law, which when disregarded would indicate improper distribution of loans, something which infractions of the present provisions in the case of many banks do not necessarily indicate.

The greater ratio borne by banking resources to banking capital in the larger communities, as compared with a like ratio in smaller communities, is responsible for the defective and unequal working of the present provision.

The average ratio of resources to the average capital of the 44 national banks in the city of New York is as 17.5 is to 1; of the 16 national banks in Chicago as 14 is to 1; of the 6 national banks in St. Louis as 8.2 is to 1; of the 266 national banks in other reserve cities as 9 is to 1; while in the 3400 country banks the ratio is but as 6.1 is to 1.

The law limiting loans to 10 per cent of the capital, applied to the 3400 banks of the smaller communities of the country, as a whole, would allow the loaning of 1.56 per cent of their total assets to one individual. As compared with this, the banks of the city of New York, on the average, could not loan over fifty-seven one hundredths of one per cent of their total assets to any one individual; the banks of Chicago not over seventy one hundredths per cent of their total assets; the banks of St. Louis not over 1.21 per cent of their total assets.

In other words, the proportion of their assets which the

country banks of the United States can loan, in strict compliance with section 5200, to one individual, is forty-six one hundredths of one per cent greater than in 266 reserve cities, thirty-five one hundredths of one per cent greater than in St. Louis, over twice as great as in Chicago, and nearly three times as great as in the city of New York.

This provision, as it stands at present, constitutes an incentive to the making of loans the larger in proportion to the total assets of banks in smaller communities, where, as a rule, large loans which are safe are the most difficult to secure, while in the larger business centers of the country, where commercial conditions create a certain demand both from banks and borrowers for large and safe loans, its effect is the reverse to such an extent as to be injurious.

A bank with small loans is not necessarily a bank with more distributed and safe loans. A bank with $100,000 capital and $100,000 deposits, the latter being loaned in the maximum amounts allowed by the present provision (to wit: to ten individuals at $10,000 each), has not as well-distributed loans as a bank of $1,000,000 capital and $5,000,000 deposits, the latter being loaned to fifty people at the maximum of $100,000 each. In the former case the loans are distributed among only ten people and in the latter case among fifty people, and yet in each case there is strict compliance with the ten per cent restriction.

One of the objects evidently designed to be subserved by the present provision of the law was the protection of the capital of a bank, as distinguished from the other assets of the bank.

The framers of the section undoubtedly considered the capital of a bank as a greater safeguard for the depositors against loss when not over one-tenth part of it was loaned to a single individual or corporation without security. They recognized the fact, however, that when outside se-

curity was had for loans the capital did not need for its protection the ten per cent restriction, and they provided accordingly for the exemption from the restriction of a certain class of secured loans, as follows: —

> But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same, shall not be considered as money borrowed.

In the modification of section 5200, which we shall recommend, we invoke the same principle of outside security for the protection of the capital against loss upon loans exceeding the ten per cent limit. The size of the loan is of itself no indication of its strength or weakness. If the size of a loan is not such as to be an undue concentration of the assets of a banking institution in the hands of one individual or corporation, thus depriving its creditors and shareholders of the safety of the law of the average, it is not wise, either upon economic grounds or upon grounds of public policy, to forbid it by law. If, however, the size of a loan is such as to cause such undue concentration, its prevention is justifiable on both grounds.

Recognizing these truths, it is easier to understand why in many instances, a strict compliance with this provision of the law (section 5200, United States Revised Statutes), is consistent with all the needs of the current business of a small community and a proper protection to both banks and the public, yet in some larger communities, it seriously interferes with the business requirements of both the banks and the public, and adds in no way to the safety of the depositor.

The limit of the amount of single loans to an arbitrary percentage of either the capital or the sum of the capital and the surplus of a bank does not insure a general or

proper distribution of loans in all cases. Since, as stated before, the size of a loan is not, *per se*, related to its safety, the more important proportion to consider when endeavoring to regulate the distribution of loans by law is that of the amount of the loan to the total assets, rather than that of the loan to the amount of the capital. Grounds of public policy suggest as advisable the largest liberty in loans not inconsistent with the absolute safety of the depositor.

The habitual disregard of the present provision by the officers of so many banks interferes with the proper supervision of the banks by the Comptroller and tends to create indifference to the other restrictions of the National Banking Law.

The failure of the present law to provide the power to apply a penalty for the making of excessive loans sometimes embarrasses the Comptroller in endeavoring to check tendencies toward recklessness in loaning, which point to the ultimate ruin of a banking institution.

As before stated, the present provision, when properly altered, should allow the banks of larger communities to have more nearly the privilege of loaning a given percentage of their total assets to one individual, which now belongs, under a strict compliance with the present provision, to the banks of the smaller communities. From this privilege they are now debarred by law.

The desired results can be obtained, in our judgment, by adding, after the words, in section 5200, "shall at no time exceed one-tenth part of the amount of capital stock of such association actually paid in," the following words: —

Provided, That the restriction of this section as to the amount of total liabilities to any association of any person, or of any company, corporation, or firm, for money borrowed shall not

apply where a loan in excess of one-tenth part of the capital stock shall be less than two per cent of the total assets of said bank at the time of making said loan. Said loan shall be at all times protected by collateral security equal to or greater in value than the excess in the amount of said loan over one tenth of the capital stock.

A strict penalty enforceable by the Comptroller should then be provided for infractions of the amended section by the officers of banks to enable the Comptroller to successfully enforce general and strict compliance with its terms.

The suggested amendment will make section 5200 just and equitable in its relation to all national banks and to all communities of our country, large and small, which it is not at present.

It would not lessen the amount which the smaller banks can now loan in compliance with the section as it stands at present. At the same time it would not allow the larger banks to loan to any one individual or corporation more than ten per cent of the capital, unless such loan, in addition to being secured for the excess, would not amount to a greater per cent of the total assets than is consistent with the safe distribution of loans and the resultant protection to depositors.

Section 5200, thus amended, will not interfere, as at present, with the right of the banks in the larger communities to meet the legitimate requirements of business in these commercial centers. It will enable the Comptroller, by its enforcement, to prevent any undue concentration of loans and conserve their general distribution.

Under the section thus amended the capital of a bank will be protected, inasmuch as no loan in excess of the ten per cent limit can then be made, except upon proper collateral security.

The penalty clause will enable the Comptroller not only

to limit the size, but to enforce the securing of excessive loans.

The following table shows the inequality of the present law in its practical effects upon the banks of larger and smaller communities, so far as the possible distribution of loans is concerned: —

Banks in —	*Number of banks June 29, 1900*	*Average resources*	*Average capital*	*Maximum average loan, 10 per cent of capital*	*Ratio of average resources to average capital*	*Average maximum loan to average resources, now allowed by section 5200*
New York City..	44	$24,188,833	$1,381,818	$138,181	17.5 to 1	.57 of 1%
Chicago.....	16	16,458,878	1,153,125	115,312	14.2 to 1	.70 of 1%
St. Louis.....	6	15,651,533	1,900,000	190,000	8.2 to 1	1.21%
All central reserve cities....	66	21,503,817	1,373,485	137,348	15.6 to 1	.64 of 1%
Other reserve cities.....	266	5,068,585	561,821	56,182	9.0 to 1	1.10%
Country banks...	3,400	640,197	103,192	10,309	6.1 to 1	1.56%
United States....	3,732	1,324,803	166,542	16,654	8.0 to 1	1.21%

For the purpose of ascertaining the general result of the suggested amendment to section 5200, United States Revised Statutes, an examination has been made of the reports of condition of the national banks, of date June 29, 1900. In the following table is set forth the number of banks in reserve cities named on June 29, 1900, number of loans in excess of the legal limit, loans which would be excessive if allowed to the limit of two per cent of the total resources, and number of banks in which loans equaling ten per cent of their capital would be greater than two per cent of total assets, the loaning power of which the proposed limit would not increase. The table shows similar information relative to one hundred banks selected at random from various sections of the country and also the total number of separate loans and discounts of such banks and of those located in the reserve cities on November 12, 1900: —

Cities	*Number of banks*	*Total number of loans outstanding November 12, 1900*	*Number of excessive loans under section 5200*	*Number of loans in excess of the proposed two per cent limit*	*Number of banks in which loans equaling ten per cent of their capital would be greater than two per cent of total assets, the loaning power of which the proposed limit would not increase*
1. New York City....	44	38,102	707	26	14
2. Chicago.....	16	23,272	86	11	5
3. St. Louis.....	6	9,967	19	4	3
Total.....	66	71,341	812	41	22
1. Boston.....	38	33,269	7	2	2
2. Albany.....	6	4,794	77	14	5
3. Brooklyn.....	5	3,576	47	6	3
4. Philadelphia.....	36	26,463	156	42	13
5. Pittsburg.....	31	18,345	180	70	19
6. Baltimore.....	19	17,955	30	7	6
7. Washington, D.C..	11	9,808	28	5	3
8. Savannah.....	2	1,532	4	4	1
9. New Orleans.....	7	5,019	67	7	6
10. Louisville.....	8	7,560	8	2	2
11. Houston.....	5	1,671	27	3	2
12. Cincinnati.....	13	18,510	19	5	4
13. Cleveland.....	15	13,019	43	10	6
14. Columbus.....	6	5,082	3	0	0
15. Indianapolis.....	4	4,987	6	1	1
16. Detroit.....	6	6,180	6	3	3
17. Milwaukee.....	4	5,743	10	1	1
18. Des Moines.....	4	3,002	4	0	0
19. St. Paul.....	5	2,800	6	1	1
20. Minneapolis.....	6	2,202	15	7	3
21. Kansas City.....	6	6,999	60	4	2
22. St. Joseph.....	2	891	16	2	1
23. Lincoln.....	3	2,020	6	0	0
24. Omaha.....	8	5,032	11	7	5
25. Denver.....	4	4,875	29	4	2
26. San Francisco.....	4	3,805	10	6	3
27. Los Angeles.....	4	2,687	8	5	3
28. Portland, Ore.....	4	1,390	9	7	3
Total.....	266	219,216	892	225	100
Total of all reserve cities	332	290,557	1,704	266	122
Country.....	100	55,052	301	266	92
Total.....	432	345,609	2,005	492	214

RECOMMENDATIONS OF PROVISIONS REQUIRING THE STRENGTHENING OF GENERAL CASH RESERVE

The question of those laws which affect the right of one national bank to consider as a cash resource a deposit in another national bank, called its reserve agent, is one of great importance and involves the most fundamental principles of safe banking. The extent to which the reserve of one bank can safely be represented by what is practically a loan to another bank, instead of by cash in its vaults, is a proper subject for consideration at this time, in view of the financial experiences through which this country has passed during the past few years.

In times of financial crisis, such as 1893, when there are widespread withdrawals in currency, not only in reserve cities, but throughout the country, the reserve cities are subjected to a strain which endangers the stability of the entire banking system.

The reserve banks, as a rule, recognizing the instability of bank balances, must loan a large proportion of their money on call. To secure sufficient call loans they must go to the speculative exchanges, and the injurious results of that practice are easily understood.

It is only by loaning money on speculative securities that the banks are enabled to pay the high rates of interest on bank-deposit balances which form the attraction to the country banks for the deposit of so much larger a portion of their funds in New York than is needed for the clearance of exchange. During the summer of 1899 there occurred a marked demonstration of the evil effects of this practice upon the legitimate business of the country. At that time there was a marked slackening in the demand for money in the interior of the country, and the banks of that section found it difficult safely to loan their funds. As a result, the

interest paid by Eastern reserve agents upon deposit balances attracted an immense surplus to New York and other Eastern cities.

This redundancy of money in New York and the East and the ease with which loans upon speculative collaterals were there obtained immediately created a speculative movement in stocks, which was carried on with a constantly rising range of prices until the fall of last year. At that time the crop movement in the West and the rising rate of interest there led the banks of the interior to draw upon their balances in New York and to order the shipment of large amounts of currency as against these balances. It is to be noted that at the time these demands took place the business of the country was in a prosperous condition, with a tendency toward an increase in general prices and in the wages of labor. There was no lack of confidence in the country and nothing which indicated panic condition, and yet this demand by the banks of the West for the shipment of currency on deposit with reserve agents resulted in a panic upon the Stock Exchange of New York, which instantly became a grave menace to the entire business of the country.

In the abnormal demand for money created by this panic on the Stock Exchange the ordinary credits to the legitimate business and commercial enterprises of the country were necessarily curtailed by the banks, and unquestionably great damage would have been done to such interests had not the Secretary of the Treasury, seeing the possibility of evil to the country at large, interfered to prevent a rapidly increasing stringency in the money market.

It is to be remembered, of course, that the exchange business of the interior banks will always necessitate large deposit balances in New York and other reserve cities, and

that at certain seasons of the year abnormally large balances of idle funds may be attracted to different parts of the country, following higher interest rates. But it is suggested that public policy demands that banks of the country should not be allowed to deposit with other banks so large a portion of that fund which in theory is regarded as sacredly devoted to the protection of the interests of the depositors. They should be compelled to hold a larger portion of this fund in cash in their vaults, so that it can always be devoted to its proper use, beyond peradventure.

In the panics of 1873 and 1893 and on other occasions the New York banks for a considerable time refused to ship currency in response to demands from banks in the interior, showing in the extreme test of panic that the reserve which had been counted as cash by the banks of the country was not, in fact, at all times available to enable them to meet the demands of their depositors. While restrictions placed upon the power of banks to count as banking reserve so large a proportion of money on deposit in reserve cities will not have the effect of preventing speculative transactions in money centers, it will not have a tendency to encourage them to so great an extent as does the present law, at a risk at times to the best interests of legitimate business and at the cost of weakening the banking system as a whole, by creating too great a disproportion between the aggregate cash resources and the aggregate deposit liabilities.

It is to be remembered that so far as the ability of the banks to serve the public is concerned it will not be impaired by smaller balances in reserve cities. The banks of necessity must furnish exchange, and will accordingly keep the balance with correspondents necessary for such purpose. The permission given by the law to the reserve agent is primarily for the purpose of convenience and profit for the

banks, and not for the convenience of the public in any of its relations to the bank.

The Comptroller believes that under the present law regarding reserve cities too great latitude is now given the banks in connection with the use of the reserve, the primary object of which is the protection of the depositors of the banks, and he recommends that amendments to the laws be passed requiring that a larger proportion of the reserve should be kept in cash in the vaults of the bank. Considering the banking system as a whole, the present ability of banks to use credits with reserve banks as a basis of loans creates too great an extension of aggregate deposit credits as compared with aggregate cash resources, which, in times of liquidation and financial panic, increases the necessity upon the banks of demanding payment of loans from the community and adds to the demoralization of business incident to such period. By increasing the restrictions upon the right of banks to count deposits with reserve agents as cash, a firmer and safer foundation will be built under the deposit credits of the country, and it is the belief of the Comptroller that in times of liquidation the greater strength of the banks will more than compensate them for the loss of the small amount of interest on a portion of their balances which may be due to a change in the present law.

It is therefore recommended that section 5192 of the Revised Statutes of the United States be amended so that under its provisions but one fifth instead of three fifths of the reserve of fifteen per cent required by law to be kept by banks not reserve agents may consist of balances due from reserve banks; and that section 5195 of the Revised Statutes of the United States, which authorizes banks in smaller reserve cities to keep one half of their lawful money reserve in cash with central reserve cities, be repealed.

RECOMMENDATION AS TO FEES FOR NATIONAL BANK EXAMINATIONS

The Comptroller repeats the recommendation made by his predecessors, that the present law should be so amended as to provide fixed salaries for bank examiners, to be paid from a fund collected from the banks, to take the place of the fee system now in force. The amount allowed an examiner for the examination of smaller banks is not sufficient to compensate him for the time necessary, in many cases, for an extended examination. The present system encourages to too great an extent superficiality in examinations, and interferes greatly with the proper and wise apportionment of time of examiners among the different banks.

INTERNATIONAL AND INTERCOLONIAL BANKS AND REPORTS AS TO BANKING SYSTEMS IN PORTO RICO, HAWAII, AND THE PHILIPPINES

The rapid growth of business between the United States and its new island territory and the increasing commerce of the country with South America emphasizes the need of laws authorizing and regulating banks for the transaction of international and intercolonial banking, to which, in his last two Annual Reports, the Comptroller has already called attention.

Under the necessities of trade such institutions are springing into existence, and they are at present under little or no supervision in the interest of the public. A law properly framed to regulate such banking cannot be enacted too soon, both for the purpose of public protection and for assuring to institutions contemplating entering this business a stable legal basis.

In connection with the detailed reasons for the passage of

such legislation and a statement of its important relation to the business welfare of our nation, which were outlined in the former reports of the Comptroller, special attention is called to the information as to the banking systems of the Philippines, Porto Rico, and Hawaii, contained in the appendix to this Report. Through the action of Congress the National Banking Act is now in force in Hawaii and Porto Rico, but no provision has been made for the intercolonial banking essential to trade interests, and for the supervision in the interest and protection of the public of such native banking institutions as were in existence upon our accession to sovereignty of these islands.

Only one national banking institution has been incorporated under present law for the purpose of transacting business in the islands, to wit: The First National Bank of Hawaii, at Honolulu, H.I., with a capital of $500,000.

This whole subject is one of great and immediate concern and should have the prompt attention of Congress.

For the purpose of securing such a statement of banking conditions in our island possessions as would indicate the nature and scope of the problem of a proper governmental supervision, the Comptroller addressed the following letter to Hon. Elihu Root, Secretary of War, and a similar letter to Hon. Charles H. Allen, Governor of Porto Rico, and Hon. Sanford B. Dole, Governor of Hawaii: —

TREASURY DEPARTMENT,
OFFICE OF THE COMPTROLLER OF THE CURRENCY,
WASHINGTON, D.C., August 10, 1900.

SIR: —

The National Banking Act makes it the duty of the Comptroller of the Currency to make a statement in his Annual Report to Congress as to the resources and liabilities of the banking systems of the United States other than national, and it seems desirable that I incorporate, if possible, in my next annual report information as to the existing banking institutions of the Philippine

Islands, including such financial statements of their condition as it is possible to obtain from them. In my last Report to Congress I republished extracts from the report of Mr. Edward W. Harden, special commissioner of the United States, who was sent by the Treasury Department to make a report upon the financial and industrial condition of the Philippines.

Had I any appropriation available for the purpose I should not hesitate to make an independent investigation, but as I have not, the purpose of this letter is to ascertain whether or not it is possible for you, legally and consistently with the interests of your own Department, to detail some one of your present force in the Philippines who would be competent therefor, to obtain statements of the condition of all the different banking institutions in the islands, and as complete a statement as possible of the laws under which such institutions have been incorporated or now exercise their power. It would be especially desirable in this connection to have an exact statement relative to any of these banks.

In view of the general interest manifested in financial conditions in the Philippines and the large and general circulation of the Reports of the Comptroller of the Currency among the business men of the country, it would seem appropriate that such information gathered by your representatives be used therein. It is understood, of course, that any matter furnished will be printed as originating from your Department. If it is possible for you in any way to extend to this office such service and courtesy, I should be greatly obliged.

Respectfully,

CHARLES G. DAWES, Comptroller.

HON. ELIHU ROOT,
Secretary of War, Washington, D.C.

Through the courtesy of these officials and in response to this request much information has been furnished, and is printed in the appendix. The subject is one of such vast importance, presenting so many complex and new problems in finance and banking, both domestic and intercolonial in nature, that, as preliminary to any step toward legislation by Congress, a commission should be established to investigate and study local conditions and to report upon

the nature of the banking legislation best adapted for the interests of this country and her new possessions.

The Comptroller earnestly renews his former recommendations to this effect.

PROPOSED CHANGES IN OUR BANKING LAWS

(Address delivered before the Pennsylvania Bankers' Association, at Pittsburg, September, 1903. Stenographically reported)

The subject which I propose to discuss under this caption is that of asset currency and branch banking, and it is one which has agitated the bankers of the United States for the last eight years. This question first began to be discussed about the time of the Banking Association meeting at Baltimore, — the time when the Baltimore plans, so called, were first enunciated, — and you will remember that at that time these so-called plans for asset currency were offered as means primarily of governmental currency reform. The panic of 1893 had exposed the inherent weakness of our governmental financial system as it was at that time. That inherent weakness had existed years before that, but it took a period of deficient governmental revenues to develop that weakness and create public sentiment in the United States for its reform. A favorable general public sentiment is always necessary in this country of ours before enacting long-discussed legislation affecting our interests.

The panic of 1893 had developed a deficiency in governmental revenue. The expenses of the Government were greater than the income of the Government. As a consequence, the gold reserve in the Treasury of the United States, upon the existence of which depends the interchangeability of the greenbacks and other forms of governmental credit currency into gold upon demand, was encroached upon for the purpose of paying the expenses of the

Government, — governmental income not being sufficient, — and there came to be a disproportion between the gold in the Treasury and the demand currency liabilities of the Government. That disproportion commenced to undermine the confidence of the people in the stability of our medium of exchange, and as a measure of governmental currency reform one of two things had to be done: either that disproportion had to be lessened by decreasing the amount of currency liabilities — in other words, by retiring the greenbacks: or it had to be lessened by increasing the amount of gold in the Treasury, allowing the currency liabilities to remain as they were. Now, those who were in favor of asset bank-notes were in favor of retiring $346,000,000 of greenbacks of the Government which were in circulation, and, for the purpose of filling the vacuum in the general circulation to be thus caused by the retirement of the greenbacks, they urged the provision for these notes. The Government, however, did not take that means of currency reform. Under the law of March 14, 1900, the gold in the Treasury was "shored up" and properly protected against periods of deficient governmental revenues. Confidence was restored in the stability of our governmental credit currency, which depends for its value just as much upon its exchangeability into gold at the Treasury upon demand, as a check against any deposit depends for its value upon its exchangeability into money, or into another form of credit equally as good as money, at your bank. Therefore, there does not at this time exist any excuse, so far as a governmental necessity is concerned, for these asset notes, which at that time were advocated as chiefly important because with their aid we could cancel the greenbacks and shift the burden of gold redemption of a portion of the credit circulation of the country upon the shoulders of the banks. We have, however, since the pas-

sage of the law of 1900, heard this argument for asset notes, and some reasons for it exist now as then, and are most important. But they are based upon the needs of the business community as distinguished from the governmental needs.

It is proposed under these plans — I think we are all familiar with them — to relieve the banks of the United States from the necessity of depositing government bonds as a condition precedent to the issuing of bank-notes, and to allow them to issue these notes against their assets; the notes to be secured by a redemption fund of five per cent, as under our present system, and that redemption fund to be kept replenished by a limited tax upon the issues of such national banks as choose to issue the notes. Then, in the case of the failure of any particular bank which has issued these notes, there is to be a first lien upon the assets of the failing bank for the benefit of the note-holders of the bank, as distinguished from the deposit creditors of the bank. And it has been estimated that, if the national banks of the United States had, since the establishment of the system, issued the notes which are in circulation now, and had not had any government bonds upon deposit with the Treasury of the United States as security, the tax necessary to be levied to have redeemed all notes in full would have been a very small one.

Now, in considering this argument, I want to call your attention to one or two things, lest we be misled by these figures. In the first place, this system of note issues, which it is proposed to authorize by law, is an optional system of bank-note issue. It is not necessary, under this proposed law, for a national bank to issue these asset notes unless it desires to issue them. That being the case, it is very difficult for us to make an estimate of the amount of tax upon these issues which will be necessary to make the notes safe, based upon the experience of the national banking system;

for we do not know how many of the five thousand national banks in the country will choose to issue these notes. If only a few hundred of the weaker banks should choose to issue the notes, the tax should not and would not be estimated the same as if one thousand strong banks chose to issue the notes. If a thousand banks chose to issue the notes, the tax should not be the same as if four thousand banks issued the notes. But we do not know how many national banks will avail themselves of this privilege of issuing uncovered currency, and yet that tax, levied for the purpose of making these notes safe, is a limited one — a tax which thus limits the liability of each one of the issuing banks for the notes of another bank.

Again, we do not know what the national system will be if the banks of the United States are given the privilege of issuing uncovered currency. Mr. C. C. Hay, of the *American Banker*, told me that the record collected by this magazine showed that at this time there were 17,635 banks in the United States, of which about 5000 were national banks, and over 12,000 banks were outside the national system. The bulk of those outside the national system are small banks, and the greater part of them eligible through conversion to come into the national system. Now, if they should come into the national banking system for the purpose of availing themselves of the privilege of issuing uncovered currency, how do we know what the national banking system will be?

Why, with this chance of difference in the condition of the banking system to which the proposed law applies, should this tax be thus limited? Simply because the framers of this bill know that, unless that tax is limited, the stronger banks will not issue the currency. The stronger banks of the United States are not going to undertake to guarantee and be responsible for the issues of the weaker

banks. But what moral right have we, by limiting the tax, to put a risk upon the community, whose bank-notes are now safe, which the banks themselves are not willing to take for the purpose of securing the profits incident to the issue of these notes? I am very well prepared to admit that, provided there is a first lien in favor of the note-holding creditors as against the deposit-holding creditors of a bank, a limited tax is sufficient to make the notes safe; but my contention is that a first lien in the case of uncovered notes, as distinguished from the present bond-protected bank-notes of the country, is unfair and unjust to the deposit-holding creditors of the country; and, in addition to that, if, under this proposed system, this first lien is allowed, the business of the country will be greatly injured by the lack of confidence which such a system will tend to create in the minds of the deposit-holding classes as a whole.

Right here — for I want to emphasize the importance of this argument against a first lien for note-holders — let me speak of what the chief function of a bank is. The chief function of a bank in any community of this country is not the note-issuing function. The note-issuing function in the most of the great Continental banks is the chief function of the bank, or of very much more importance, at least, than the note-issuing function of the banks in this country. The great function of the banks in this country is the production of purchasing power. A depositor leaves $1000 with the bank and receives credit for it. At the same time, under the rules of banking, the bank can loan $750 of this $1000 in the shape of credit upon its books to another customer, thus increasing the purchasing power of the community by seventy-five per cent of the original deposit. And so, in this country, under the normal and ordinary operations of the banking system, there has been built up in the banks a magnificent deposit credit to the people of the United

States. There is now on deposit in solvent banks of the United States over $9,000,000,000, the bulk of which is subject to check; and yet the entire outstanding circulation of gold and silver and paper of the United States Government is only about $2,250,000,000, or about twenty-five per cent of that sum. Now, it is through checks and drafts drawn against that magnificent deposit balance that ninety per cent of the business of the United States is done, and it is not at this time a matter of so much importance as to whether this comparatively unimportant function of issuing notes is changed. The important thing to consider is what we are going to do in connection with any change in the form of this comparatively unimportant function of issuing notes to endanger the confidence of the people in the safety of this magnificent deposit credit. For when you commence to endanger the confidence of the people in that deposit balance, when you frighten, in any degree, the deposit-holders, then is the time that we are face to face with all the trouble incident to panics — with all the trouble incident to contraction. That is the great question in the discussion of these plans for asset notes. Do not endanger this prosperity which we have built up at so much cost in this country to-day, by doing anything which tends to lessen the confidence of the public in the great credit balances upon deposit in the banks of the United States.

Now, let us see how the first lien — coming back to that — may do it. It is undoubtedly true that, if all the losses which would have accrued in the past to holders of national bank-notes, if there had been no United States bonds as security for them, were apportioned over the entire amount of deposits in the country, the percentage of loss would have been a very small one. But losses upon these notes would not be apportioned over all deposits. This first lien localizes losses. It means that in any community, should a

bank fail, the loss of the deposit-holding creditors, through that issuance of asset notes, would not be a proportion that the loss in that particular bank would bear to the total losses under the entire system. It means that all the loss upon the notes of that particular bank must come out of that particular set of depositors. Now, there would be a very great difference in the effect of those localized losses upon the confidence of the people in the safety of deposit balances, and the effect if that loss could be fairly apportioned and distributed. And under any of those plans, if we take as far as we safely can the experience of the national banking system as a guide, it will, I think, be seen that by giving a first lien for the benefit of asset note-holders as distinguished from deposit-holders, the percentage of their claims which deposit-holders in an insolvent bank will then receive will be very greatly decreased — decreased, in my judgment, to such an extent that, after a series of these failures have occurred, especially in times of a panic, the public will come to appreciate the possibility of the severe losses which this first lien will inflict on them. Thus, by authorizing the issue of these uncovered notes with a first-lien provision, we shall lessen the amount of the deposit balances of the United States, and by lessening the confidence of the public of the United States in the banks as the proper custodians for their funds, we shall inflict the greatest damage upon our commerce and industry and prosperity.

Now, a first lien is inherently a moral wrong. There is no inherent moral right about it. The money of the deposit-holding creditors of a bank has gone into the assets of the bank side by side with the money of the note-holding creditors, and when that bank fails we have no inherent moral right to say to the deposit-holding creditor: "Your dollar shall not be paid until and unless the dollar of the note-

holder is paid in full." As I say, there is no inherent moral right about it. The contention is that a public necessity exists for a different kind of bank circulation from that in use at present; that in that public necessity for a different kind of circulation can be found justification for the moral wrong of a first lien. But my contention is that there is no such public necessity at this time in the United States as will justify that wrong. It is no argument to say that a note-holder possibly lives at a distance from the bank, and for that reason he has not the chance to determine the standing of the bank that the deposit-holder has, who does his business in closer contact with the bank. That is no ground which can be claimed as a justification for the great injustice to be done in the proposed distribution of the assets of an insolvent bank. As a matter of fact, the trustworthiness of banks is not a matter, from the very nature of things, with which depositors can easily acquaint themselves; not even the stockholders in a bank know very much about the bills receivable of their particular bank. A bank, to be successful, cannot publish its own business and the business of its customers to the world. The question of trustworthiness is left by the depositor to the bank examiners as representatives of the Government, and cannot be determined by a patron of a bank as a rule — there are exceptions, but not as a rule; and this is not a reason which justifies this radically and fundamentally different treatment in the two classes of creditors, to say that the note-holder is at a distance and therefore must be protected in preference to the depositor who is nearer. As a matter of fact, a deposit creditor of necessity must often trust banks at a distance.

And this first lien, which is worshiped as a sort of fetish by currency orators — this first-lien provision is an exception in the currency systems of the world. If one listens to

the speeches of these so-called reformers at this time, he would imagine that a first lien is something vitally necessary. There are only two countries in which the first lien exists, so far as I understand. It does not exist in France, England, or Germany. It exists in Canada — an unqualified first lien — and in Canada, in the future, is to be seen the first test in times of business adversity of the value of uncovered asset currency subject only to a nominal tax. In this country we have a qualified first lien, and what qualifies the first lien is the fact that an unshrinkable asset has to be deposited with the Treasury of the United States before the notes can be issued. In other words, the proceeds of those notes are invested in unshrinkable assets; so as a matter of experience, it has been demonstrated that the lien has not worked to the injustice of the deposit-holding creditors. But how would it have been under our system if that qualification, if that condition, had not existed? Under the present system of note issues, the proceeds of the notes are invested in an unshrinkable asset, to wit, United States Government bonds. Under the proposed system the notes will be invested in commercial assets, upon which, in the case of an insolvent bank, there is, of course, a shrinkage. Under the asset plans, not only must the depositor sustain a percentage of loss upon which his own money has been invested, but an additional loss of the same percentage upon the assets in which the note-holders' money is invested. Experience has demonstrated that there is practically no shrinkage in government bonds, and that, therefore, as a matter of fact, under the present system, the first-lien feature has not operated to the loss of the depositor as it would under the asset system. As I have said before, the first lien is bound to localize the losses on currency, and that localization of severe losses is one of the most dangerous features of this first-lien provision. I maintain that

a first lien, unless the deposit-holding creditor is protected first by a requirement that an unshrinkable asset as security for bank-notes be deposited with an impartial trustee to protect him against losses made through bad investments of the notes, is a feature which would cause lack of confidence in the banks of this country, and cause a decrease in the deposit balances, and thus tend to bring about financial straits; for, as I have said before, the confidence of the people of the United States in the banks of the country is a most important thing to consider, and much more important than a change in our form of bank currency at this time.

I have made my speech thus far from the standpoint of an opponent of the present plans for reforms in our bank currency which are offered to the people. I believe in reform in bank currency, but I do not believe that these particular plans offered to us at this time are safe. We can, however, both secure reform and at the same time be safe. I admit that we need additional elasticity in our currency, but I believe that elasticity must not be obtained at the expense of the solidity and safety of the medium of exchange, in which the business of this country is done. We need elasticity a great deal more in times of a panic than in the fall when the crops are to be moved. A panic in this or in any other country comes about so often, and we cannot avoid it. It comes through the ordinary and simple results of ordinary and simple business. In any country where the credit system is in effect as here, panics will come. A man makes a purchase of a piece of property for $5000. We will say he sells it for $10,000, and takes $5000 in cash and a note for the other $5000. The price of real estate rising, that man sells it for $15,000, and takes $5000 cash, and $5000 in a note payable in one year, and another note of

$5000 payable in two years; and so on, increasing in proportion to cash. Not only in the real estate business, but in all business, the credits of a country grow out of proportion to the cash in which those credits are redeemable, and sometimes hastened by speculation; but whether hastened or not, the time is sure to come when credits of a country get out of proper proportion to the cash in existence in which credits are redeemable. By and by there exists a great disproportion between the credits of a country and the cash in which they are redeemable. Some bright man sees it, and calls for payment of his note; another sees it, and calls in his note; a number of men see it, and call for their notes; and a general feeling of unrest and disquietude is developed; and suddenly you have frightened the greatest creditor class we have ever known, the depositors in the seventeen thousand banks of the country, and they become alarmed and call for their credit — the credit due them in the shape of deposit balances from the banks; and suddenly we are face to face with all the disasters and all the troubles which are incident to what we call a financial panic.

We have a panic about every twenty years in this country. There was the panic of 1817–18; the panic of 1837; the panic of 1857; the panic of 1873, hastened out of its time, perhaps, by the inflation incident to the Civil War; there was the panic of 1893; there is the panic which is off in the future. We cannot stop financial panics; but if it were possible for us to evolve a plan for some sort of an emergency currency which would help the banks of the United States to tide over that period of tremendous demand for cancellation of deposit balances, we should have taken a great step forward in this matter of currency reform, and, in my judgment, the only practical step at this time toward the solution of these problems. The period of acute monetary demand is not long. The very height and climax of the

panic of 1893 was reached in May, when it was impossible on certain days to borrow money upon government bonds, I am told, in New York City. Yet in October, 1893, six months after that period of acute demand, there was the largest collection of idle and unloanable funds in the banks of the United States which there had ever been since the foundation of our monetary system. The demand for more money at that time is short, not long. From the effects of a panic, of course, the country is years in recovering. It was five or six years after the panic of 1873 before stagnated industries commenced to revive. It was in 1898, five years after the panic of 1893, before this present period of great prosperity could be considered as fully started. But the acute demand for money — and a panic always arises out of a demand for sudden cancellation of debt — is for a period of but a short time. Now, can we find some method of issuing in time of panic additional bank credit in the shape of uncovered currency, because all asset currency is a form of banking credits, and a provision for asset notes at this time — mistake it not — is an argument in favor of allowing additional use of bank credits? An asset note is a form of banking credit, and it is a form of which the people will use only so much. Can we devise some method which at the time of a panic will allow the issuing of a small amount of additional bank credit without endangering the confidence of depositors in their deposits, and without the necessity of an unjust and wrong and demoralizing first lien in favor of uncovered asset note-holders? Any asset notes are a form of bank credit, and there is a limit to the amount of credit with which a business community can be saturated; and just in proportion as you saturate, in normal times, like the present, a community with bank credits in the shape of asset notes subject only to a small tax, you will lessen the ability of the banks to issue these notes in times of a panic.

Let us illustrate this point from this much-talked-of system in Canada. They have this asset-note system. To be sure, they cannot have any four thousand five hundred or five thousand banks to which to apply it. They have some thirty-eight centralized banks with branches to which to apply it. There is a fundamental and radical difference between the two systems. Let us see in what condition they now find themselves with their asset currency. On March 30 the deposits in the Canadian banks amounted to about $418,000,000. Their banking capital amounted to about $73,000,000. The note issues at that time were about $58,000,000; their cash resources about $80,000,000, — I have not figured it exactly, — or about eighteen per cent of their deposits and note liability. They are allowed under the law to take out these asset notes up to the extent of the capital of the banks. In other words, they have been authorized to put all the notes they can into circulation up to the extent of their capital, and they have been able thus far to get out $58,000,000. The time for the supreme test, the crisis for Canada, the time for the true test of her asset-currency system, is yet ahead of her and not behind her. When the panic comes it will be seen whether the elasticity of her currency system is sufficient to carry her through. The deposits of Canada are constantly increasing. Notes are kept afloat by the banks for the sake of the profit there is in it in these normal times. The elasticity of their currency is more like wet leather, which stretches principally one way, than like rubber, which contracts and expands. Now, what help will Canada get during the next panic from this asset circulation? Since her banks have already issued about $58,000,000 out of an authorized issue of $73,000,000 bank-notes, they can take out only an additional $15,000,000 in notes. That is less than five per cent of the combined deposit and note liabilities of the banks. Surely

these asset notes will be more of a menace than a help to the Canadian banks in the next panic.

If Canada, with its lesser business, and with its greater facilities for the redemption of asset notes, can keep in circulation $58,000,000, or about eighty per cent of their capital, — can keep that amount afloat in the shape of asset notes, — how much easier would it be for five thousand national banks in the United States to keep twenty-five per cent of their capital in asset notes afloat! We shall not have an elastic currency under the Fowler Bill to the extent of twenty-five per cent of the capital of the banks of the United States, for these notes could be kept afloat in normal times for the purpose of profit, and it is nonsense to talk of them, if issued under nominal taxation, as being of any material assistance in times of a panic. You would, under the Fowler Bill, be increasing the credits of the country at a time when we do not want increased credits. This is the time, above all others, to take in sail, not to put it out; and if we are influenced by arguments about the necessity for more bank currency, we must be very sure that the new bank-notes are so guarded and so protected that they do not add to the danger which now confronts us, of too much extended credit, of too much speculation. In other words, we do not want at this particular time more credit money. We do not want an asset currency which will go out into business and be a foundation of still more business credits as well as being a credit in itself. We want some sort of a currency which can come out in panics, which can be used at such times to carry us through; and not a currency which will help us into a panic while we are out of one. The crying need of the day is some sort of currency which can be used, not as an instrument of speculation and profit at the present time, but which will help tide us over in time of financial need. The bankers are just as anxious as all

other good citizens for any change in the currency system which will tend to make it more safe, and they stand, in my judgment, for only those reforms which will be good for the community as a whole; and this question of profit incident to a small expansion in the credit facilities of the banks is one that nobody considers of special importance except in its economic effect upon the country as a whole. It is a time when we should provide for trouble ahead, not lay the foundation for it. Therefore let us favor a small issue of asset notes subject to a high restrictive tax of four or five per cent — a tax high enough to provide for their redemption without the necessity of a first lien, and high enough to prevent their use as an instrument of current profit in normal times, thus preserving them for use in times of panics and financial emergency. This is the most practical step for us to take at this time.

I hear it said that we conservatives are becoming educated, by degrees, to the ideas of some of those who have been preaching to us so long and so radically on the subject of branch banking and asset currency. In my judgment, the education is in the other direction. If you compare the McCleary Bill, Secretary Gage's first bill, and other bills promulgated by some other gentlemen a few years ago, with the plan for asset currency as it exists at present, you will see a marked progression on the part of the so-called currency reformers to the standard which has been the standard upheld by the conservatives for several years, and not a progression of the conservatives toward the more radical ideas of the so-called currency reformers. If we could have an emergency circulation, subject to a high tax, to be used in times of a panic, and not to be used as an instrument of currency, profit, or speculation, we should advance in the right direction. This currency would come out for the general good, as well as for the good of the banks, and help tide over

panic periods. It is no new plan, and there is nothing original about it. We have the experience of the world to guide us. They already have a system of repressive bank currency tax in Germany. This tax, of necessity, must be so high as to provide without question for the redemption of the notes for the short time they are in circulation, without necessitating an unjust prior lien of the note-holder over the deposit-holder, and, when the need should be at an end, will force them into retirement again. And for that reform, it seems to me, we can safely stand. It is unwise to talk of joining the branch-banking question in the discussion of asset notes.

We have a great country, with diversified conditions and customs. We want at this time something to go into law to help us, and we know there is no chance at this time of a branch-banking law. Let us combine and stand behind some simple step in advance. We do not have to-day any single man with the influence in financial discussion that Hamilton had in his day. The great men of to-day have not to such an extent the centralized confidence of the people of the United States. This is such a large country now. In Hamilton's time the country was new, everything was new, all departments were being founded then, and great men could, comparatively unhampered and unhindered, force into law their fundamental systems. To-day we have so many men in the country who are financiers, there are so many different views and such a diversity of interests among our people, that to get together on some rallying-ground upon which all can combine for the passage of legislation is a necessary thing and a difficult thing.

I want to say one word more in connection with branch banking. The little country of Canada is held up to us as a model, notwithstanding the fact that you could take twenty banking systems like Canada's, put them side by

side, and they would not equal the strength or power of the banking system of the United States. The resources of all the banks of Canada are not equal to the resources of the banks of the one great city of New York in the United States. Then, why model a system of five thousand national banks, scattered all over this great country, after a small banking system like that in Canada, and which has its real test ahead of it? We have here the greatest banking system in the world. I have heard it held up to great criticism. I have heard Americans visiting in Europe say they were ashamed of our banking system, or the banking system of the United States, in comparison with that of Europe. We have not built up the banking system of the United States upon the Continental idea. Two lines of thought have run along side by side in financial matters in the United States. The old banks of the United States — the First and the Second Banks of the United States — were the American expression of the idea of Continental banking, but we did not follow along that line. Possibly we made a mistake. I do not think so. We did not follow along in those lines, but built up a banking system upon another theory. The banking system in the United States was built up by protecting the rights and the opportunities of the small man and the small bank in business—built up from units, individuals, from the bottom up! The European system of centralized banks with branches was built from the top down. It has been of the greatest importance to this nation industrially that we have pursued the American idea in banking. It is the same idea that underlies the theory of protective tariff. Let the little man grow. Let him have a chance. Give the American a chance, and he soon grows in size and strength, so that in time commercially and financially he will come to dominate the world. And he has in one sense done it in this banking system of ours, which at

times is held up for ridicule and criticized severely in comparison with the systems of Europe. This system of ours, this banking power of ours, in 1890 was a little more than the banking power of the United Kingdom, and a little less than the banking power of Continental Europe. Within ten years this banking power of ours has grown so that it is now within twelve per cent, not only of the banking power of the United Kingdom, but of the banking power of the United Kingdom and of Continental Europe put together. And we have built this system up by protecting the small banker.

Now, however we may differ as to this question of branch banking, let me say right here, that as practical men, we all know that at this particular time there is no chance of a branch-banking law going upon our statute-books. Right or wrong, debatable question as it may be, there is at this time in the United States a widespread apprehension lest this great process of centralization and consolidation of industry and capital is not too greatly curtailing the opportunities and chances of the individual. Right or wrong, debatable as that question may be, we know that that apprehension exists. And we all know how futile it is to expect to have passed into law any change which removes existing restrictive provisions of law against branch-banking systems, and opens still further the way for the same process of consolidation and centralization to go on in the banking business as is now going on in general commercial and industrial business.

I do not want to be considered an obstructionist. I think it is time to take a step in advance, but to take a step that is safe. We do not want to consider the question of branch banking as a matter even for discussion among the bankers of the United States, as a thing at present practicable or possible. I do not think, as a matter of principle, we can

afford in this country to depart from our present theory of banking. Under it has been developed the greatest banking system of the world. The time is not ripe for branch banking in this country, if such a time will ever come. We do not have to disagree entirely with the economists in holding this position. We know that the rates of interest on certain forms of collateral loans will be lower under a branch-banking system. We know that the farmer having grain, or any other commodity which has a cash value in the established markets, can through branch banking get a lower rate of interest. There will be fewer rooms to rent. There will be fewer clerks to employ. There will be certain economies in the management of business, which might in the older and more fully developed communities in the East fully compensate the people for the loss of some of the advantages the small bank gives to the community and the public. But it is doubtful. Branch banking would certainly not aid in building up our undeveloped country, and the newer sections of the United States. He who would stand for the common good of all should argue the question from the standpoint of the people of the undeveloped country, and from the standpoint of the people building up a great and undeveloped country; for the United States as a whole is still undeveloped. If you discourage the small bank, you do not injure so much the depositors of the small community, but you curtail the opportunity for credit of the small borrower; and it is the small borrower of the United States who has built up the country. It is folly to maintain that an agent of a branch bank, acting at a distance under delegated authority, can exercise the same discretion and have the same latitude in the making of loans in which the personal equation is an element, as does the local bank acquainted with local conditions and authorized to cope with a local situation. It is the man who goes

in to start a little business — a little wholesale business, a small manufacturing business, a small mining business, or some other business of small beginnings — who has developed and built up this country. He does not often have collateral. The money he borrows often forms a certain, and even large, proportion of the total investment made by him — money advanced him because he has character and standing with the local bank. The local banker knows him, has followed him, trusted him, and gives him credit upon his representations that he will pay, not upon his collateral. Out of the little shops of the Deerings and the McCormicks and of the Studebakers of years ago, and the little businesses of such men, have grown these magnificent corporations which are commencing to dominate the world; and it is by the protection of the opportunity of the small man to secure credit that we are building up this great commonwealth of ours. The man who will bring out from this soil its riches, the man who will be a great manufacturer, the great farmers of the future, — some of them are hard up now, — some are having trouble right now to pay back the little money advanced them with which to start their struggling industries by the small banker who trusted them, — some of them will go under, — but more of them will keep on, until this great State of yours, like this great nation of ours, shall dominate over its competitors through the rule of the "survival of the fittest," and the protection of the rights of the individual by law.

DANGERS OF THE INITIATIVE AND REFERENDUM

(Address at Banquet of Civic Federation of Chicago, February 4, 1911. Stenographically reported)

It was with some reluctance that I accepted the invitation of the Civic Federation to speak upon this most important subject, for I had made no extensive preparation for it; but when the fundamental principles of the Government, which we love so well, are attacked, it needs no great preparation upon the part of any speaker to defend them, and no American citizen should refuse to give his views when asked.

We believe in this country in the people, and in the ultimate voice of the people. In anything that I may have to say I wish no inference to arise that in common with all believers in the principles of representative republican government, I do not have full confidence in the justice and the ultimate right of any decision which comes from the deliberate voice of the people. But, my friends, this whole government was based upon the view which our forefathers in their wisdom took, that the voice of the people which was to be trusted, must be deliberate. It must be well considered. Our Government was so framed that its actions must be evolved from the best judgments of the people; not a temporary judgment based upon an incomplete consideration of the question at stake, not a judgment for which simply the demagogue and the radical were alone responsible, but the judgment which came after both sides had been heard; after the measure embodying that judgment had passed through one House of

Congress to which Representatives were elected by the people; after the measure had passed through another House of Congress where the members were elected by a body of representatives from the people, after that measure had been placed before the President of the United States for his review and been approved, or if disapproved had been sent back to both houses of Congress to pass over his veto, by a two-thirds vote, and then finally, if desired by any citizen, after a body of men appointed for life that they might be removed from the clamor of the unthinking, — out of reach of the arguments of the demagogue which appeal to passion and to prejudice, — a body of men unbiased and fair-minded, should have passed in final review upon that measure and ascertained whether or not it was in accordance with the Constitution of the United States, which is the cornerstone of our magnificent governmental edifice.

The men who framed the Constitution of the United States recognized the great truth that generally a temporary expression of popular will is not what the people themselves wish when they have had time for consideration, and that ultimate popular judgments should be deliberate. It is because of the recognition of that principle by the Constitution of the United States that this Government exists to-day and will exist hereafter.

Abuses have sprung up. Corruption has entered some of our legislatures now and in the past. The different States have encountered the storms through which every government must sail which lasts, — our nation itself has been tempest-tossed, — but we have sailed safely through because the Constitution of our Government made it necessary for the people to act deliberately, even under great provocation.

A community is like other associations of men, and in

all associations of men banded together for a common purpose, and in every community banded together for the purpose of government there is a conflict at certain points between the rights of the individual and the rights of the mass of men of the community in which the individual lives. All government is in one sense a compromise, between the rights of the individual and the rights of the community, which must curtail the rights of the individual in the interests of the common good.

And so we find in every successful body of men, whether it be a corporation or whether it be a trades union or whether it be a county, a city, a state, or a nation, that all the time the successful organization is founded upon a system of checks and balances which demands and which compels careful and deliberate consideration of important questions relating to its welfare and to the rights of its constituent elements.

I think, perhaps, there is no body of laboring men which has been more successful in securing the recognition of their just demands than any one of the different brotherhoods of railway employees. I do not remember — I knew at one time — the exact system of checks and balances which the employees of the railroads in their different organizations impose upon themselves before they determine upon that last resort — the paralyzing of the transportation business of the United States by a strike; but I do know that after the question has been proposed it has to pass authority after authority before it comes to the Grand Master of the organization himself, and then taken from him to the Grand Masters of the allied organizations of the railroad employees, in joint council. And it was because the demand was made when it had passed that system of checks and balances, that it had a like consideration of the gentlemen interested on the other side which led in

nine cases out of ten to the peaceful settlement of the difficulty, and as a rule in favor of the men.

The most successful system under which organizations of men work is that which gives those in authority, who have considered all the matters relative to a decision, time to work out the policy which they deem wise, and to give the reasons for and against its adoption, and thus command the ultimate support of a constituency fully enlightened as to both sides of the question.

I cannot discuss in detail the different forms which the Initiative and Referendum takes. The principle underlying the idea seems to be to get away from the old system of checks and balances which make up the foundation of representative republican government. It is to get some short cut to the immediate adoption of that which is temporarily in demand, notwithstanding history shows that that which is in temporary demand among the people of the United States is by no means that which they always ultimately wish. And no measure which seeks to take away from the people a system which compels them to give proper deliberation to a question, is for the ultimate benefit of the people of the United States themselves.

One of the proposals generally made in close relation to the Initiative and Referendum is to give the people the right to recall a public official from office before his term expires.

Suppose we had had this power of recall vested in the people of the United States when Abraham Lincoln stood against the voice of the radical and the voice of the aggressive, and against the clamor of the unthinking, against the thousands of those demanding that he take immediate action on this or that question, and that in consequence he had been compelled either to be precipitate in some of those issues upon which hung the safety of

this Republic or to abandon the helm of the struggling ship of state.

Every great man in our history whose memory the people love and revere has had at one time to stand against what was the immediate positive popular demand for action, and it was because he stood against the demand that we to-day look upon him as great.

The men who stand as the beacon lights in American history were not the men who were always at the head of every popular movement among the people of the United States, and if this country is to endure, this kind of a man, in the future of our country as much if not more than in the past, must have his opportunity to stand by his policy amidst the clamor of the majority against him at the time being.

My father fought in command of the Sixth Wisconsin in the battle of the Wilderness, and I have read the letters which he wrote in the trenches during that awful time. I remember how he rebelled at the policy of General Grant as his splendid regiment was slowly shot to pieces and his best friends who had been with him for so long through that awful war were one by one killed or wounded and mangled. I have read the letters that he wrote with a breaking heart, protesting against the wiping-out of one of the greatest armies that this world has ever known. And yet, I lived to hear him say that the policy of General Grant, when inch by inch he ground the greater stone of the North against the lesser stone of the South, was what saved this Republic, and that he — not General Grant — had been mistaken.

Suppose that there had been the right of recall among the soldiers of the Army of the Potomac during the battle of the Wilderness! Suppose that General Grant had not had the chance to work out his policy! Suppose that Grant

had not had the chance to save this government! My friends! In government as in war, before an Appomattox we cannot always avoid a Wilderness.

We have had instances where popular clamor had its way. This country even yet does not forget the humiliation it suffered at the beginning of the Civil War when the time which was being taken by wise men for the preparation of the forces of the North was too long for the impatience of a people bent on action, and we had the cry "On to Richmond! On to Richmond!" and a brave army was sent to battle contrary to sound judgment, in response to an overpowering demand of a people who were not informed of the real situation, and as a result came the crushing, bitter, terrible humiliation of Bull Run.

Do not make of your Republic a Bull Run! I saw President McKinley at the beginning of the Spanish War, when he put in jeopardy his leadership of his party and of his people in his endeavor to avert the war as well as to obtain time for adequate military preparation, and an almost overwhelming demand came from the people for immediate action, but his firmness in not yielding to it, gentlemen, is his true claim upon fame.

And so it is in connection with all public men, and so it will be in connection with all republican forms of government. If this Government is to last, the people of the United States must voice always their ultimate conviction in vital matters, and the history of this nation shows that under our present system, the ultimate voice of the people in time does control, and upon that fact is based our safety.

To whom should we listen, my friends, in days like this? To the radical altogether? No. In part, yes. To the conservative altogether? No. In part, yes.

If we are to progress, as Professor Laughlin has said, we must listen to the radical; if we are not to go upon the

rocks we must listen to the conservative. And in connection with this great measure which is proposed to be passed by the people of the State of Illinois at this time, we may make, by a hasty decision, one of those great mistakes from which it would take us a long time to recover.

We have the instances to which we have listened tonight. As I understand it, the law which it is proposed to pass is much like that which they have in Oregon, and I would ask that we proceed to inform ourselves as to both sides of so important a question.

THE NATIONAL RESERVE ASSOCIATION IS NOT A CENTRAL BANK

(Collier's Weekly, June 24, 1911)

A MATTER of the greatest importance to the average man is the proper settlement of the problem presented by the present defective monetary system of the country. For decades the effort has been made to solve it, and gradually, students of the question, originally far apart in their views, have become more united until they now are practically a unit behind the principles of the Aldrich plan for a National Reserve Association. But after the economists and specialists have united, there comes the most important step of all — to reach the understanding and secure the support of the average man for the plan. If the Aldrich plan is to be adopted, the average man must be made to know, in the most unmistakable way, that it is not a central-bank plan. In their arguments in support of the measure, many of the specialists are overlooking the fact that the people are not so much interested in details as they are in fundamental principles, and little effort has yet been made to emphasize in their minds the radical differences between the Aldrich plan and the central-bank plan.

The Aldrich plan for a reserve association is designed to secure to the business interests of the United States the advantages, without the disadvantages, of the central bank. While I have opposed the central bank as impracticable in the United States, I strongly favor the general principles of a plan for a reserve association with only slight modifications. The reserve association is not a central bank, like the First and Second Banks of the United States, which

were banks designed to transact business with the community generally.

The reserve association, since it does not accept deposits except from the banks and Government, and does not pay interest on deposits nor make loans to the business community in competition with the independent banks, may be regarded as the agent of our present great competitive independent banking system. Public services of vast importance to our people, similar to those rendered in Europe through central banks, can be performed by the reserve association without in any way impairing the present functions of our independent banking system. While preserving all the powers for good of a central bank, it does not gain them by weakening the present competitive system. It serves as a means by which this system, in its present form, can better serve the business community. The advantages of the reserve-association plan over the central-bank plan may be stated as follows: —

1. It is a development of the present independent banking system of the United States, and not a departure from it.

2. The reserve association will tend to maintain the present system of independent banks and to increase its importance instead of lessening it.

3. The fact that stockholders of the reserve association will be the national banks, widely distributed in ownership and location, and the method of selecting the boards of the local reserve association insures, of necessity, a proper supervision and conduct of the branches of the central reserve association, whereas it was the incompetent conduct of the branches of the Second Bank of the United States which at one time nearly wrecked it and at other times materially interfered with its highest effectiveness.

4. Because of the distribution of the stock of the reserve

association among local banks, and the fact that the local banks are represented on the boards of the local associations and the central reserve association, and interested in its business, the association will not be subject in the same degree to the demagogic attacks which were the great menace to the old central banks. The most powerful enemies of the old central banks were the competing independent banks. Every Congressman inclined to demagogism will have to deal with an interested local constituency favoring the reserve association, where in times past the local banks encouraged radical attacks upon the competitive central bank.

The reserve association plan will secure to the country the following benefits: —

1. In general, it will enable the system of independent banks to exercise collectively, and therefore much more effectively, the precautionary measures which each properly managed independent bank endeavors, for the protection of its customers and itself, to exercise at present, with additional powers for the betterment and facilitation of general business possible only through united action.

2. It will provide an elastic currency, consisting of notes of the central reserve association, which can be secured by the local associations through the rediscount of commercial bills receivable of short maturity.

3. It will provide a delegated, but a central, power with the opportunity to regulate in a general way the expansion and contraction of this currency to accord with the necessities of business and commerce by alteration of the discount rate, and through its sole control of the right to make note issues.

4. It will provide an opportunity for the reserve association to regulate the general conditions of banking and commercial credits in a helpful way by supplying credits itself

and by checking tendencies toward too great a disproportion between banking credits, including bank-notes and cash reserves, including its own, and to prevent depletion of bank reserves by supplying its own notes when otherwise the reserves would have to be paid out, resulting in a corresponding larger contraction of commercial credits.

5. It will have, in these purposes, the assistance of governmental financial relations, and will render the Government in its financial administration reciprocal and equivalent service for this assistance.

6. It will provide an opportunity practically to protect, by means of its discount rates, the gold holdings of the country from exportation, since by raising rates of interest, it tends to lessen the incentive for shipment of gold to points where higher rates of interest prevail.

7. It will mobilize the bank reserves of the country, so that they can be used at critical times where most needed, and with a power for good impossible under the scattered reserve system, without the power of coöperation which the reserve association provides.

THE ALDRICH BILL

(Address before the Committee on Banking and Currency of the House of Representatives at a Hearing on the Aldrich Bill, Washington, D.C., April 14, 1908)

THE committee met at 10.30 o'clock A.M.

Present: Representatives Fowler (chairman), Prince, Waldo, Hayes, Weeks, Burton, Durey, Pujo, Gillespie, James, Crawford, and McHenry.

STATEMENT OF CHARLES G. DAWES, ESQ., OF CHICAGO, ILL.

Mr. Prince. Mr. Dawes, will you give your name and residence?

Mr. Dawes. Charles G. Dawes, Evanston, Illinois.

The Chairman. What is your occupation?

Mr. Dawes. I am president of the Central Trust Company of Illinois.

The Chairman. Located at Chicago?

Mr. Dawes. Located at Chicago.

Mr. Prince. You were formerly Comptroller of the Currency?

Mr. Dawes. Yes, sir.

Mr. Prince. Between what years?

Mr. Dawes. From 1898 to 1901, I believe.

Mr. Prince. Is the bank of which you are president a commercial bank?

Mr. Dawes. The bank of which I am president is a state bank. Yes; we do a commercial business.

Mr. Prince. Does it do a regular commercial business?

Mr. Dawes. Yes. We do not take commercial paper. We loan only on collateral; but we do a regular commercial business, with checking accounts.

Mr. Prince. You do a checking-account business?

Mr. Dawes. Just here, gentlemen, let me say —

Mr. Prince. Just let me ask you one or two more preliminary questions, to get them clear in the record.

Mr. Dawes. Yes; go ahead.

Mr. Prince. If this Aldrich Bill, that is now under discussion, should become a law, would you avail yourself of its privileges?

Mr. Dawes. I do not know; I have not considered that matter as yet.

Mr. Prince. Could the bank of which you are president avail itself of its privileges now?

Mr. Dawes. Ours is not a national bank; therefore we could not avail ourselves of its provisions.

Mr. Prince. That is what I am getting at. Let me ask you a further question: If this bill should become a law, would you change your present form of bank into a national bank in order to get the privileges of it?

Mr. Dawes. I do not know, Mr. Prince. I have come here to speak from a general standpoint about the Aldrich Bill. It is a matter of no interest to this country as to whether my bank would avail itself of the provisions of the Aldrich Act or not. If you will please let me proceed now with a general statement upon this bill, after I get through I shall be very glad, indeed, to answer any questions that I am able to answer. But I would like, if I can without interruption, to make a statement upon this bill as I see it from its general standpoint, not with reference to my bank or any particular bank, but with reference to the interests of the country as a whole.

Mr. Prince. All that I wanted, Mr. Dawes, was to have the House and the country know exactly the conditions as they appear before the committee. I do not wish to catechize you, and I do not wish to interrupt you. Go on now

in your own way. I simply wanted to show the facts as they exist.

Mr. Dawes. In the first place, I want to say, in connection with the Aldrich Bill, which has passed the Senate, that I do not appear as advocating the passage of that bill in its entirety. I believe, as do most of those who have appeared before this committee, that the section relating to loans upon securities in which directors of the banks are interested — the number of the section I have forgotten — is unwise.

Mr. Prince. It is section 11.

Mr. Dawes. Yes; section 11. I believe it is unwise, and should be eliminated from the bill. But I do wish to make an argument for the general principles embodied in the bill and to point out the necessity that exists at this time for the enactment of substantially the provisions of the Aldrich Bill in regard to emergency circulation and in connection with national banking reserves.

Before taking up the detailed argument in this connection, I want to say that we are confronted by a necessity in this nation for remedial legislation of some sort. We were confronted by that necessity in the panic of 1893 which first brought to the attention of the people as a whole the defects of our national banking system. At that time, which was a time of emergency and crisis, as at this time, there was a widespread discussion and quite a general effort made to get united support behind some measure which could pass through Congress and relieve the national banking system from the situation in which it was and from its inability properly to respond to the needs of the country. But there was an utter inability to agree among the financial doctors of the United States at that time, as there seems to be at this time, after the passage of some fourteen years, among those who believe in radical

changes in the national banking system of the United States.

This is no time for the discussion of branch-banking laws, of laws authorizing the establishment of a central bank, of laws radically changing the method of note issues. This, I say, is not the time for the discussion of those measures as of practical importance in connection with this session of Congress and with this emergency. I say that for the reason that there has been demonstrated the absolute impossibility of the financial doctors of this country themselves uniting upon any one measure, just as there was at the time of the last emergency. And because of their inability to unite, this country has gone without the protection which it should have had put into our statute-books at that time until we have gone into this panic and through it without such laws. We had at that time the Baltimore plan; we had at that time the Walker plan; we had at that time the Indianapolis commission plan; we had at that time Secretary Gage's plan; we had at that time Mr. McCleary's plan; we had at that time Secretary Carlisle's plan. We have now the American Bankers' Association plan; we have Mr. Fowler's plan; we have Mr. Ridgeley's plan for a central bank; we have the New York Chamber of Commerce plan; we have almost innumerable plans coming from all over the country suggesting radical changes in our national banking system. And I say that we are confronted by a condition of public sentiment in the country at this time which makes impossible of legislative enactment any radical change in our national banking system.

We have been through a panic in the United States in which the banks in the central reserve cities over this country largely repudiated their debts. Let us see just what that means.

Suppose that down in a country town the retailers

should get together and say to the wholesaler who came to collect a debt: "We have agreed among ourselves to pay you in due bills." Those men, in my judgment, would soon have the sheriff to deal with. But the banks in the central reserve cities of the United States, when a banker from a little town came and asked in currency for the deposit which was due him under the contract, sent him home without it, or with only a part of it, throughout almost all of this United States. It was repudiation. The banks got out clearing-house certificates. And what was one of the purposes of those clearing-house certificates, which is so often overlooked? It was to enable the banks safely to repudiate the obligation upon them to pay in currency and in lawful money. For under the clearing-house arrangement, if I were a city banker, and any one should come to my bank and ask for his deposit, and I should say, "I will give you only a portion of it in currency," if the clearing-house certificate system was not in effect he would go home and put in a check upon my bank through the Continental National Bank of Chicago, or the First National Bank of Chicago, and I would have to settle in currency through the clearing-house for that check.

So that these clearing-house arrangements are a fence around the lawful money of the central reserve city banks and the reserve city banks to enable them safely to say "no" to the man who comes to collect his deposit in cash in order to meet the customers whom he has to face over his counter. Take the little banks all over this country which are isolated, with perhaps no other national bank in the town; they have to meet face to face their customer who demands his money. They do not have the moral support of a number of other banks with obligations doing the same thing. They are unprotected and alone. This clearing-house arrangement in the cities is perfectly justified under

the law of public necessity; it is justified in public sentiment; it is justified morally because of the greater evil that would come to the business of the country if the banks did not take this means of self-protection and did not repudiate in this way; and those considerations greatly overshadow the moral wrong involved in the refusal in a time of panic of the reserve cities to cash the deposits of the country bankers. But the country banker is the man who has been left largely exposed in this last panic; and the question of the relation of the reserve held by the country banker to his deposit liabilities is one of the most important questions involved in this Aldrich Bill.

But the point that I wish to make first is that if it is possible at this time — call it unscientific if you like; call it in subversion of economic principles if you like — to pass the kind of law that will enable the banks in the reserve cities to pay their debts in a time of panic, it should be done by all means. And I maintain that a grave mistake is made by any man or any set of men who maintain that nothing should be done at this time to right this intolerable situation, which comes up every time we have a general contraction of credits in the United States, simply because a remedy which is confessedly possible of legislative enactment is "unscientific" or "tending in the wrong direction."

We want the national banking system of the United States put in such a condition that the business of the United States in these times of emergency can be protected. And I say that those men are making a mistake who say now, "Do nothing," simply because away off in the future, when we can agree upon a branch-banking bill, when we can agree upon a central bank, when we can agree upon an asset currency, we shall be able to do it with less difficulty than if this statute is passed at this time.

We should have relief at this time for the protection of the business interests of the country. The loss and the misery that are caused by repudiation by banks we all know. And it seems at this time, since this bill has passed the upper House, that there can be enacted into legislation some remedial bill, provided it is not in conflict with the fundamental principles which, right or wrong, have underlain our banking system.

We proceed slowly in this country. We have prejudices to confront in this country. We must have united effort. We must have concessions made in order to get through any legislation. And I think I can say without contradiction that no bill radically changing our banking system can be passed, at this session of Congress, at least. Now, how can any radical legislation be enacted later, if, with all the object lessons pointing to the necessity of a change which exist before this Congress, which exist before this people, just out of the panic of 1907 — how, at any time in the near future, can radical legislation be passed if temporary remedial legislation cannot be passed at this time, owing to the prejudiced efforts which are made against it?

Suppose you introduce for general discussion before the country the proposition of asset currency. Let the people of this country believe that that is possible of legislative enactment — let the people of this country, with all the prejudice which has been created against the process of centralization in other lines of business, believe that there is a chance for the passage of a bill establishing a central bank, or branch banking, which will enable the laws of business to be applied unfettered to the banking business, and see what the opposition will be. You have not developed the opposition in the United States to radical changes of our banking laws, for the reason that the people do not think that there is a chance, that Congress does not think that

there is a chance, of their being made. And if remedial legislation is not had at this time, this country will have to go through another panic unprotected; these reserve cities will again repudiate, of necessity and rightfully; and we shall again be face to face in the future with all that we have passed through in the recent past. And the men who will be responsible for that condition will be the obstructionists at this time when, upon some remedial measure, it does at last seem possible to get action by Congress.

I want now to discuss the reserve feature of the Aldrich Bill and to say that in my judgment never has a bill been so misrepresented before the people of the United States as has this Aldrich Bill in connection with its reserve requirements. I have here resolutions of clearing-houses which have been passed throughout the United States, starting with the resolution of the Chicago Clearing-House. In that resolution it says: —

Whereas the Aldrich Bill changes the legal reserve requirements of the National Banking Act which have stood for forty years, so that nearly $200,000,000 of lawful money, or about one sixth of the lawful money holdings of the national banks, must be withdrawn from loanable use and locked up in vaults or invested in certain specified bonds: Therefore be it

Resolved (1) That the transfer of this money from the liquid reserves of the banks, where it is available for loans, to an idle fund, which the banks are forbidden under any circumstances to encroach upon, will seriously impair the working capital of the country. It is not merely a transfer of money from reserve cities to other localities, but a definite withdrawal of money from use as a basis of bank credits. The total lawful money holdings of all the national banks on December 3, 1907, according to the statements of that date to the Comptroller of the Currency, were $1,045,795,019, on the basis of which the banks had outstanding loans of $4,585,337,094. If the available cash in their vaults at that time had been reduced as proposed by the Aldrich Bill, the banks would have been obliged to contract their loans by approximately $1,000,000,000. We submit that such a reduction in the

loaning power of the banks concerns the business community quite as much as it does the banks. It means restricted accommodations to the business men, higher interest rates upon commercial loans, and a permanent burden upon the country in the form of returns upon idle capital, the system of reserves in this country being already more costly than that of any other country.

That comes from the clearing-house of the city of Chicago; the intimation being that a loan contraction of $1,000,000,000 may be caused by the passage of the Aldrich Bill.

Then come the other clearing-houses in the wake. Here is one from Lincoln, Nebraska, to practically the same effect. Here is a letter from the ex-president of the American Bankers' Association. Notice that these resolutions are being sent out by the thousands: —

Gentlemen: The Aldrich Bill has passed the Senate and is now before the Committee on Banking and Currency of Congress.

This measure as it has been amended is a dangerous bill. Instead of giving us an emergency currency of $500,000,000 to meet the constantly growing demands of trade, it takes from the reserve cities $221,143,179, and ties up in the reserves of the country $571,265,496, of which amount $147,428,786 shall be in bond securities, which precludes the possibility of these bonds being used to secure emergency circulation.

And so on.

I say that no bill has been so misrepresented in its general effects as has this bill. That is evidenced by these intimations that it will be necessary to contract the loans of this country $1,000,000,000 because of the Aldrich Bill. Let us analyze the effect of the reserve provision of the Aldrich Bill; for if that would be so, unquestionably it should be stricken out of the bill. It is not so. I have taken the trouble to make a careful computation on that point from statistics obtained from the Comptroller's Office — not from the statement of December 3, which is not rele-

vant, but from the last statement — showing the condition of the banks as they are at the nearest available date.

On February 14, 1908 (the central reserve cities are not included in the following statement, for the Aldrich Bill does not change them), the lawful money on hand in the country national banks was $232,373,202. This does include the insular possessions, whose banks are very small. The Aldrich bill requirement of four fifths of the fifteen per cent reserve upon which these banks are allowed to do business amounts to $295,255,488, of which $98,418,496 can be carried in bonds as provided for in the bill. So that the lawful money requirements under the Aldrich Bill are $196,836,992. Subtracting that from the amount of lawful money which they had on hand, there is an excess at this time in lawful money over the Aldrich Bill requirements.

Mr. Prince. Would it be proper to ask you a question right there, in connection with that statement?

Mr. Dawes. Yes, sir.

Mr. Prince. It has been stated before the committee that for about nine months of the year there is a redundancy of currency; that during the crop-moving season of the year there is a greater demand for currency, and that if the provisions of the Aldrich Bill with reference to the reserve were in force during those crop-moving seasons of the year (to illustrate, at Minneapolis and St. Paul), they would be absolutely helpless to comply with the provisions of the bill and at the same time give the currency necessary to move the crops. You are giving, if I get your statement correctly, the statement of the month of February, when the banks throughout the United States, as a result of this currency trouble, had been piling up reserves in their banks. What is your answer to the other statement as to the crop-moving season?

Mr. Dawes. Mr. Prince, I will ask the stenographer later to read your question, which I shall answer as soon as I finish on this particular point.

Mr. Prince. Very well; I did not want to interrupt you, but that inquiry was germane at this point.

Mr. Dawes. Yes; it is germane, and I want to take it up.

In reserve cities, the lawful money on hand at the present time is $200,362,786. The Aldrich Bill requirements would be $219,488,306, less the amount which they are authorized to carry in bonds, $36,581,384. Subtracting that sum of $182,906,922, which represents the net requirements of the Aldrich Bill in lawful money, the excess of lawful money now held by the banks over the Aldrich Bill requirements in reserve cities is $17,455,864. The total of excess over the Aldrich Bill requirements of the reserve city banks and the country banks (not including, of course, the central reserve cities, which are not changed by this bill) is $52,992,073. In addition to this surplus of $52,992,073 over the Aldrich Bill requirements in country banks and in the reserve cities, the central reserve cities of the United States now hold a surplus over their twenty-five per cent reserve in lawful money of $45,576,494. So that the grand total of surplus in lawful money now held by the banks of the United States over the Aldrich Bill requirements is $98,568,567.

Now, tell me where there is a basis for the statement, or room for the inference to be drawn, that we are facing a contraction of loans of $1,000,000,000 as a result of the passage of the Aldrich Bill? The Aldrich Bill will require the investment in these municipal and public bonds of $134,999,880.

The Chairman. That is the amount to be put into the bonds?

Mr. Dawes. That is the amount to be put into the bonds.

Mr. Gillespie. In their reserve?

Mr. Dawes. In their reserve, to be carried as a reserve.

Mr. Prince. Let me ask this question: Does that mean, also, the bonds that are required by the very first section of the bill, which uses the language "any national banking association which has circulating notes outstanding secured by the deposit of the United States bonds to an amount of not less than fifty per cent of its capital stock?" Is it not true that many national banks do not have fifty per cent of their present capital stock in United States bonds?

Mr. Dawes. Oh, yes; that is true.

Mr. Prince. Have you figured the amount that will be required in United States bonds to comply with the very first section of this act?

Mr. Dawes. I have not figured that amount; no, sir.

Mr. Prince. I will ask you if it would not be a large amount?

Mr. Dawes. If I have not figured it, I cannot answer as to how large it would be, Mr. Prince.

Mr. Prince. As the former Comptroller of the Currency, have you any present knowledge, or means of giving to the committee the information, as to how many bonds would be required to comply with that provision of the bill?

Mr. Dawes. The larger the amount of bonds which would be required to comply with that provision of the bill, Mr. Prince, the smaller the amount they would have to buy of these municipal bonds, because of the smaller amount of currency they would take out.

Mr. Prince. Oh, no; I beg your pardon. Before they can avail themselves of the provisions of the bill, they have to —

Mr. Dawes. I understand; but I am discussing now the ability of the national banks of the United States to stand the passage of the Aldrich Bill in connection with the move-

ment of lawful money and in connection with that question of loan contraction.

Mr. Prince. Yes; but you have a double class of bonds.

Mr. Dawes. Wait a minute. I understand; and I will try to take up that point in a minute. I have shown that, utterly irrespective of the bond question (to which I was alluding incidentally), the banks of the United States have now $98,000,000 of an excess in lawful money over that required amount. As to the amount of additional United States bonds that they would have to buy, the total capital of the banks is at this time something over $900,000,000 and the amount of the bonds to secure circulation is, in round numbers, $600,000,000. The Aldrich Bill would require them to hold only about $450,000,000. As to how they are apportioned, whether between banks in reserve cities or outside or banks in central reserve cities, of course, would not affect this question one way or the other. That particular point I have not figured.

Mr. Prince. I wanted to know about that, because that is creating a value for bonds that enters into this whole question and results in absorbing that much actual capital before the banks can operate. No one has seemed to touch upon that point.

(At this point, by request, the stenographer read aloud portions of the foregoing questions by Mr. Prince.)

Mr. Dawes. The purpose of that question is to indicate that a larger proportion of the cash moneys, as I understand (for that is what you are discussing now), will be tied up because of the necessity of the banks to purchase these bonds?

Mr. Prince. The question is a double question. What I want to get at is this: First, will it not require the tying-up of money in these bonds? And will it not also, in view of the fact that the number of these bonds is limited, place an

additional value upon them which they do not possess in themselves? In other words, will it not create a bond value for men who own or control these bonds that they do not at present have?

Mr. Dawes. The question is as to what you mean by "tying-up." I am discussing the matter of the relation of lawful money in connection with the statement that there will be a loan contraction because of the transfer of lawful money out of use by the banks of the United States. It does not make any difference how many more United States Government bonds the banks buy. They do not tie up lawful money in buying those bonds. They have $714,000,000 of other bonds under the last statement, all of which they can sell for bills of exchange and for drafts in the same terms that every other kind of business is done — money in terms of checks and drafts and other bank-credit currency that has not any material relation to lawful money supply, which I am discussing at this time. They can change those bond securities at that time into the kind of bonds now required for national banks, and it might involve them in some loss of profits in that way. That is a question which relates to the finances of the individual banks. The country as a whole is not concerned so much as to whether the banks make a profit or make a loss in complying with the provisions of this bill, unless, in doing that, the banks have to interfere with the supply of lawful money in the banks which is a basis for loans, and the unreasonable diminution of which may cause a contraction of loans.

In connection with some argument which we had out in Chicago, this statement was made by Mr. Roberts: "You say that the banks may carry $134,999,880 in bonds. How are you going to buy those bonds with an excess in lawful money of only $53,000,000?"

The answer to that is that the matter of lawful money has nothing to do with such transactions as are mentioned by Mr. Prince and by Mr. Roberts. That involves the sale of one kind of securities and the investment in another kind of securities. The banks of the United States have, in the one item of bonds and securities, $714,000,000, out of which they would get these other bonds without either decreasing their reserves with the central reserve cities or contracting any portion of their $4,444,353,647 worth of loans.

When we get down to discussing what will be the effect upon general business of a compliance on the part of the banks of the United States with this bond provision, we are getting down to very small figures, from which very little result could flow one way or the other so far as the interests of the public are concerned. To get $135,000,000 of municipal bonds, to get the difference between the $600,000,000 of bonds which they have now to secure currency and the additional amount which Mr. Prince refers to, — suppose it amounted to $200,000,000 of government bonds, — of course it would cause an increase in the price of government bonds, which might involve the banks in some loss in that connection, but they would not be compelled to encroach upon their lawful money supply to do that, except in a very small degree, if at all. These transactions in bonds by banks are not done in lawful money. We all know that. They are done in the same kind of currency that ninety per cent of all of the business of the United States is done — by a transfer of banking credits. And this question cannot be befogged by the injection into this discussion of questions relating to the purchase or the sale of bonds. That is a question which relates to the banks themselves. The banks themselves might make that argument — that it will be too costly for them: that some of them

may not want to avail themselves of this provision. But my point is that there is a surplus at this time of lawful money in the banks of the United States to such an extent that, because of the purchase of bonds (either government or municipal bonds) by these banks to the extent provided for by this bill, it will not be necessary to encroach materially upon that surplus or reserve in lawful money. It would not begin to consume the surplus over the Aldrich Bill requirements at this time. I am speaking now of lawful money.

Mr. Weeks. I do not want to interrupt you or break the thread of your argument; but let me suggest that that condition did not obtain a year ago.

Mr. Dawes. I am going to answer that. Mr. Prince referred to that matter. What is the weak point of our whole banking system? It is this system by which, to so great an extent, the country banks of the United States are allowed to do business on the basis of a debt from another bank, called a deposit with a reserve agent. That weakness in our banking system has been the subject of discussion off and on for the last thirty years in the Treasury Department of the United States. John Jay Knox, in 1873, called attention to it. Attention has been called to it by other Secretaries of the Treasury, including Mr. Cortelyou. I called attention to it in my Report to Congress for 1899. Mr. Forgan calls attention to it in an address which I have here, in which he quotes from my Report to Congress—that this reserve law in the United States, which enables a country bank to run with a reserve of $6000 cash (two fifths of fifteen per cent) on every $100,000 deposit liabilities, results in too great a disproportion between the aggregate deposit liabilities of the banks and the aggregate cash in which those aggregate deposits are liable to be called for. There is an inducement given each summer by the redundancy of

money in the country banks for them to send it to their central reserve agencies; and, as Mr. Prince has said, in the summer there is a great redundancy of money. And where does it go? It largely goes to the central reserve cities — first from the country bank to the reserve city; then from the reserve city to the central reserve cities, largely to the city of New York; and the banks of the city of New York, of necessity, in order to get the money with which to pay the two per cent interest on their deposits, loan it on call in Wall Street. I should estimate that even to-day there is in the neighborhood of $400,000,000 of the money of national banks and country banks loaned upon Wall Street.

Mr. Gillespie. Is all of that reserve requirement — that $400,000,000?

Mr. Dawes. Oh, no; I am just speaking of the amount of the loans.

The Chairman. You mean those loans, too, which are in excess of the reserve?

Mr. Dawes. Yes. I am not speaking, Mr. Fowler, simply of loans made by the city banks. I am speaking also of loans which are made through agents. That has no particular relation —

Mr. Waldo. What Mr. Gillespie has asked you, and what I want to know, is whether you think that $400,000,000 is the accumulation of reserves from the country banks?

Mr. Dawes. No.

Mr. Prince. He says not.

Mr. Dawes. No.

Mr. Gillespie. It is just the country banks gambling in Wall Street?

Mr. Dawes. No; it is not that. I will come to that a little bit later.

The Chairman. Mr. Dawes, I do not want to interrupt you; but I want you to make the point plain that the banks

are doing that and sending money there to be loaned largely without any reference to reserves at all. I wish you would explain that.

Mr. Dawes. Yes, they are doing that; and my estimate of the amount of money which is sent there by the country banks of the United States (that is, the banks in the interior cities) at this time is about $95,000,000. About five months ago it was as high as $150,000,000. I have made some investigation into that matter; and, apart from the loans which are made on the "Street," there are probably brokers' loans made for the banks of the United States to the extent of approximately $100,000,000 at this time.

Mr. Crawford. Do you regard that as an evil?

Mr. Dawes. I most certainly do, as I am going to try to prove.

Mr. Crawford. What remedy have you?

Mr. Dawes. Just exactly the remedy provided by the Aldrich Bill — to keep more of that cash money where the deposit liabilities for which it is pledged exist.

Mr. Gillespie. If this money is not needed for reserves in the country banks — if they are not only making their reserve deposits, but are sending their depositors' money in greater amounts to invest in stocks and bonds in the stock and bond market of New York —

Mr. Dawes. But it is needed in their reserve account. That is what I am trying to show.

Mr. Gillespie. But it is in excess of their reserves, is it not?

Mr. Dawes. The point is that the Aldrich Bill increases the amount of the reserve which the country banks have to hold; and I maintain that the increase of the amount is a necessary increase and that the permission given under the law to send to their reserve agents so large a proportion of their reserve results in the undue accumulation of money in

New York and in unduly low interest rates upon that form of loans which are readily convertible.

Mr. Weeks. You do not want to let that suggestion of Mr. Gillespie's go in that form. The country banks do not invest in bonds and stocks; they loan to others, with bonds and stocks as collateral.

Mr. Dawes. Certainly.

Mr. Gillespie. Oh, yes; it is a case of "tweedledum and tweedledee."

Mr. Weeks. Oh, no; it is not even "tweedle."

Mr. Dawes. Now, as to that evil: The permission given under the law to deposit so large a proportion of their reserves with the reserve cities and central reserve cities results, in the summer time (to which Mr. Prince refers) in an undue accumulation at New York. The New York banks know that they will probably have to ship currency in the fall, as against the deposits which are withdrawn by their country banks, so they loan that money on Wall Street, and those loans on Wall Street are paid. There was no money lost on the Wall Street loans in the panic of 1893, I am told by the Comptroller's Office. There was no money lost, to my knowledge, on brokers' loans in the panic of 1907. As a rule, those loans are promptly met when due. A personal relation does not subsist between the borrower and the lender. The business is done through brokers. It is done on a large margin. It is done upon those securities that are largely dealt in upon the exchanges, and those notes are quick cash. And this provision of the reserve law which allows so much of the country banking reserves to be held in the shape of a debt from another bank is what causes the undue collection of money in New York in the summer time, when there is a redundancy, and encourages speculation in Wall Street and ultimately produces the congested condition in Wall Street which, as in the summer

of 1899, results in 40, 80, and 100 per cent money and in frightening the whole country and in the impairing of the confidence of the whole country because of that condition.

The efforts of the New York banks in the fall to contract their loans to meet the demands from the country banks for this money, which, in order to get two per cent interest, they have deposited there in New York, is what brings us to these emergencies. And in 1907, in October, that movement precipitated the great panic that the country experienced. This evil is an admitted one. Mr. Forgan's remedy for it — he admits the evil — is branch-banking. Let me read it: —

> In the last Annual Report of Mr. Dawes, as Comptroller of the Currency, he called the attention of Congress to this subject. He pointed out the danger of our system of permitting so large a portion of the legal reserves of one bank to be represented by deposits in another. Mr. Dawes was entirely right in his diagnosis.

This comes from James B. Forgan, one of the foremost opponents of the Aldrich Bill, which strengthens these reserves.

> It is a danger which confronts us whenever public confidence weakens. Whenever individual banks, through fear, withdraw their funds from their reserve agents and fortify themselves by increasing their cash reserves in their own vaults, then enforced liquidation takes place at the financial centers, where weekly reports of the shrinkage are published for the further terrifying of the already alarmed public.

Then he goes on —

Mr. Waldo. Mr. Dawes, if that were the only thing in the Aldrich Bill, there would not be very much objection to it, would there?

Mr. Dawes. That is apparently the chief objection of the bankers of the United States.

Mr. Waldo. I do not think so; I have not heard of it. My

understanding is that the whole trouble arose from the fact that the law originally allowed this deposit of reserves for the purpose of redemption; that subsequently the law was changed, making the sole redemption point here in Washington, and that provision was not taken out, as it ought to have been. That is all there is in it. There is nobody that knows anything about banking that does not believe that the reserves ought to be kept in the bank, where they belong. So I think there is nothing in that.

Mr. Dawes. The resolutions of these clearing-house committees point out, as they indicate, a great danger in this reserve feature of the bill in the strengthening of the reserves of the country national banks and maintaining this strengthening of the reserves (and it is very small) in lawful money. In the matter of the country banks, it means that they would have to carry only $8000 in currency on every $100,000 of deposit liability, instead of $6000; but that is something.

Mr. Waldo. The actual provision of the law is fifteen per cent, is it not?

Mr. Dawes. Yes; but I am talking about the amount which they can carry in reserve cities. They are allowed under the present law to carry three fifths of it in reserve cities, and only two fifths of it must be carried in lawful money in the banks. Two fifths of fifteen per cent is six per cent. The Aldrich Bill says that they must carry four fifths of their reserves in their vaults, but one third of the four fifths — that is, one third of twelve per cent, which is four per cent — can be in the shape of these municipal and public bonds. That leaves the actual cash lawful money requirement eight per cent — an increase of only $2000 on $100,000 deposits in the case of national banks.

Mr. Waldo. You have no objection to that?

Mr. Dawes. I want to, if I can —

Mr. Waldo. I do not think any one on this committee has any objection to that. If there is such a person, I have not heard from him.

Mr. Pujo. I would like to have them keep the whole fifteen per cent there.

Mr. Gillespie. But, as Mr. Waldo says, the fight has been made by the bankers here. They dwell on the provision of the Aldrich Bill changing the reserve.

Mr. Dawes. That is the chief provision that they object to; and why? They want the use of that additional amount of money in their banking reserve cities. It is natural enough that they should.

The Chairman. After you require them to hold it there, if you then authorize them to buy a bond that will bear four or five per cent interest, any country banker is going to convert his cash reserve (and the reserve is not anything unless it is cash) into these bonds.

Mr. Dawes. Exactly. That is just exactly what I want to bring out.

The Chairman. Just a moment. What have you accomplished if you get him to put his money there, and then allow him to put it into a fixed investment?

Mr. Dawes. I am just explaining that you have increased your cash reserve two per cent under the lawful money reserve requirement of the Aldrich Bill. The banker has to carry $8000 cash instead of $6000. To the extent of that additional $2000 the foundation of all banking credits in the United States is stronger. Then the Aldrich Bill provides that he can carry one third of that four fifths, which is four per cent, in bonds. Then it also provides that if there is an emergency and the banker has to have the cash money to pay his depositors on demand, he can go to the nearest subtreasury and get ninety per cent of the value of those bonds in these emergency notes. And if he wants to

use those emergency notes as reserves the law provides that he can get that amount of the emergency notes in lawful money over the same counter from which he takes his emergency currency.

The Chairman. Just a moment.

Mr. Dawes. In other words, he can reinforce his lawful money reserves.

The Chairman. Here is a reserve of $4000 on $100,000; is there not?

Mr. Dawes. In bonds; yes.

The Chairman. In bonds?

Mr. Dawes. Yes.

The Chairman. Very well. They are reserves when they are in the form of bonds; are they not?

Mr. Dawes. Yes.

The Chairman. Very well. Now, when the banker comes to Washington —

Mr. Dawes. He will go to the nearest subtreasury.

The Chairman. Let us say the subtreasury, then — when he comes there and deposits his bonds, he has depleted his reserves $4000 when he takes the notes back in his hands; has he not?

Mr. Dawes. Exactly.

The Chairman. Very well. Then, what is he going to do to build up the reserve that he has depleted?

Mr. Dawes. Under the provisions of this bill he can take the emergency notes back, and the United States, under its provisions, has to give him lawful money of the United States for them. Have you not read the bill? That is what it says.

Mr. Waldo. Then will not the United States present the emergency notes to him immediately and take the lawful money away from him? That is the next thing that will happen in that case; is it not?

Mr. Dawes. If that is the case, introduce a bill to correct it, if you please. But the point is, and it has been made by the bankers generally —

The Chairman. Practically this is what he would have to do: If he takes this $4000 in these bonds —

Mr. Dawes. Four per cent, you mean.

The Chairman. Yes; this four per cent — $4000 to $100,000 is the way I express it, because we understand those things better.

Mr. Dawes. Yes.

The Chairman. He takes them down to Washington; and those are his bonds?

Mr. Dawes. Yes.

The Chairman. He deposits them, and he gets non-reserve money. Therefore he has to go and call $4000 of loans in his town in order to build up his reserve?

Mr. Dawes. Why, not at all.

The Chairman. Absolutely so. In other words, the commerce of the United States would have to liquidate five hundred millions of its loans in order to build up the reserve.

Mr. Dawes. Mr. Fowler, you are making exactly the same mistake there that most of these bankers have made. That $4000 in bonds which he has in his reserve he can take to the subtreasury and get for it ninety per cent ($3600) of money in the form of emergency notes. The bill provides that the Government of the United States, on demand, will exchange those emergency notes for lawful money of the United States, which goes into the reserve, and which, so far from necessitating a contraction of the loans, is an addition to that extent to the cash supply of the United States.

The Chairman. Will you tell me where the Government is going to get that five hundred millions when there is a

shortage of revenue? Tell the committee where the Government is going to get that five hundred millions.

Mr. Dawes. That is the first time that matter has been mentioned. That was not your former argument. This is step by step.

The Chairman. Oh, yes; it is. It is all a piece of work. Please tell this committee where you will get your five hundred millions.

Mr. Dawes. Let me make this point, too, right in that connection: That the question of whether those emergency notes are legal reserve or are not legal reserve will never concern the banker for one minute in the emergency which he confronts.

The Chairman. In other words, you are going to allow the national banks to hold their own notes as reserves?

Mr. Dawes. Mr. Fowler, I am going to take up that question of reserve notes.

The Chairman. I should like to have you tell this committee where the United States Government is going to get that five hundred millions which it will have to get.

Mr. Dawes. You are in favor of the Williams Bill?

The Chairman. Just a minute; I should like to have you tell this committee where the Government is going to get that five hundred millions?

Mr. Pujo. Revise your tariff, increase your revenue, and put a Democrat in office.

Mr. Dawes. If the Government of the United States agrees to redeem these emergency notes on demand in lawful money, the great probability is that the demand for redemption will be such that, under the ordinary rule of banking (which is that the actual demand will only be a fraction of the possible demand), the United States Government can meet that demand without any special legislation upon the subject.

The Chairman. Five hundred millions in the course of two or three months?

Mr. Dawes. Five hundred millions in the course of two or three months? Five hundred millions would never be presented for redemption in the course of two or three months. This Government of the United States ran here for years without a full gold reserve behind all its notes, and it has not got it now. Suppose the $346,000,000 of greenbacks should be presented all at once, what would the Government of the United States pay them with?

The Chairman. What did they do in 1895?

Mr. Dawes. They issued bonds and increased their gold reserve.

The Chairman. And that is what you would have to do in this case.

Mr. Dawes. But you do not know what the amount of the presentation is going to be. I tell you that these notes will not be presented to get the lawful money, because the people know that they can get lawful money if they do present them, just as your greenback notes are not presented for redemption in gold at this time. There will be the element of exchangeability.

The Chairman. Suppose you put a burden of five hundred millions more on this country, how long do you suppose it will be before some one will think that the Government cannot pay lawful money and will start this endless chain again?

Mr. Dawes. My answer to that is that the credit of the Government of the United States, even if the possible additional demand of $500,000,000 is made upon it, will be equal to the protection of the credit of its obligations.

The Chairman. In what way? It has no liquid assets — not a dollar. In what way?

Mr. Dawes. If necessary, by the sale of bonds.

The Chairman. Ah! That is it. That is exactly what I wanted you to say.

Mr. Dawes. If necessary, by the increase of revenue.

The Chairman. That is the whole thing. That ends it all.

Mr. Dawes. That ends it all, Mr. Fowler, in your particular mind.

The Chairman. No, no; in the public mind.

Mr. Dawes. Let me analyze this; let us finish up these things one at a time. Here the chairman of the Committee on Banking and Currency maintains, if the banks take out $500,000,000 of this currency, which is subject to a tax of six per cent if it is not redeemed in four months and a tax of nine per cent for the time that it runs after that, that within the time the banks will be willing to take out that currency there will be something like a possible demand upon the Government of the United States for $500,000,000! No more nonsensical proposition than that was ever uttered. These notes will probably only be used once in fourteen or fifteen years. These are emergency notes, subject to heavy taxation. And the idea that the solvency of the United States Treasury is in any way involved by the possibility of the changing of those emergency notes into lawful money of the United States is nonsensical.

I say, further, that this question of reserves, and the relation of reserves to credits, is largely theoretical. If the people know that these emergency notes are redeemable, and redeemable on their face by the United States Government in lawful money, and can be changed into lawful money on demand, they are going to circulate just as the national bank-notes do now. The whole theory of our currency system in that respect is that the actual demand for redemption is only a fraction of the possible demand. And in the consideration of a bill which is confessedly for the purpose of emergency use, to say that the Government of

the United States is going to be embarrassed by demands for lawful money I say is unfounded, in the first place, because the bank will pay those notes out over its counters to its frightened depositors. That is the purpose of the bill. The bank which gets out this emergency circulation will not even wait to change the notes into lawful money at the Treasury Department. The Comptroller of Currency might write them in thirty days, saying, "Your reserve is short." Is the banker thinking about his reserves? He is thinking about keeping his bank open.

As a matter of fact, Mr. Fowler objects to the fact that national bank-notes enter so largely into the reserves of the national banks. Nobody pays any attention in these days to whether a note is a national bank-note or a government note. There will, in my judgment, be no demand of any considerable amount at any time for the redemption of these notes in lawful money, although technically they could be changed into lawful reserve under that provision of the bill.

Mr. Waldo. Let us take a concrete case, if you will. Suppose a bank has a capital of $100,000 and a surplus of $100,000, and it takes out the ordinary bond notes and starts in. Of course when it starts it has $200,000, either in lawful reserves or something that must be as good as lawful reserves. It takes out $100,000 in the ordinary notes. That takes $100,000 of its reserves to start with, does it not? That is the first thing it has to part with before it can get its notes, because it has to buy its bonds. Suppose that bank wants to take out what this bill provides, the amount of its capital and surplus in addition — that will take all the rest of the reserve. How many loans could it make when it got through with that operation?

Mr. Dawes. I will have to ask the stenographer to read that question to me slowly in order to get its import.

(The stenographer read as follows:)

Let us take a concrete case, if you will. Suppose a bank has a capital of $100,000 and a surplus of $100,000 —

Mr. Dawes. What has that to do with reserves? Reserves are figured on deposits; not on capital and surplus.

Mr. Waldo. No; they have that much reserve money when they start, before they do any business at all.

Mr. Dawes. But they have that much reserve money on what — deposits?

Mr. Waldo. No; I mean they have lawful money assets that are reserve money when they start the bank to the amount of $200,000.

Mr. Dawes. Yes. You are talking now about a new bank starting — not one already in existence?

Mr. Waldo. Yes; a new bank starting. Suppose they start under this Aldrich Bill — the first thing they may take out $100,000 of the ordinary United States bond notes.

Mr. Dawes. My answer to that would be simply this, as a practical banker: That at the time these emergency notes were desired, in time of panic, no new banks would be starting. What is the use of going into these theoretical questions? That has been the trouble with this whole subject. What the United States wants at this time is some relief from an intolerable situation; and this bill is the first intelligent effort upon which it seems possible to unite.

Mr. Waldo. Let me ask you another question.

Mr. Dawes. I would like, if I can, to finish the main thread of my argument; and then I will stand up for catechism as best I can.

Mr. Waldo. Very well.

Mr. Weeks. Have you finished the part of your argument which applies to the location of reserves?

Mr. Dawes. No; I have not at all.

Mr. Weeks. I want to ask you a question about that when you get through.

Mr. Dawes. All right, Mr. Weeks; wait until I get through with that point.

I was going to say that Mr. Forgan, one of the opponents of the Aldrich Bill, calls attention to this weakness in the matter of our reserves. Comptroller Ridgely, in his last Report, calls attention to it in a very emphatic manner. Mr. Forgan's remedy was that of branch banks, such as they have in Canada. Mr. Ridgely's remedy is that of a central bank. Let us see what he says about this condition (it is a very good statement of it) which is caused by the permission given to the country banks of the United States to keep so large a proportion of their reserves which are pledged to meet their local deposits in city banks. He says: —

> The chief weakness of our present national banking system is the provision in regard to reserve deposits, which piles reserve on reserve, in reserve cities and central reserve cities, without requiring a sufficient amount of actual cash reserve on hand. As we have seen in the present crisis, when a real emergency arises these reserves are not reserves at all, because they may in a day become unavailable.

Then he goes on to say, in commenting upon the enormous extension of banking credits, and the enormous disproportion between the actual cash in which deposits are redeemable and the amount of credits which are built above them by this system of duplicating credits: —

> Is it any wonder, then, that the demand in the fall for about $200,000,000 in currency for crop-moving always makes a disturbance, and that when this demand was accompanied by withdrawal of deposits and a curtailment of credits, caused by uneasiness and distrust, that the banks were forced in self-defense to partially suspend payments, adopt clearing-house certificates, and various other expedients to furnish currency to meet such an emergency?

I will say, with reference to that, that adopting the clearing-house certificates was in my judgment largely an expedient to avoid furnishing currency. It was to enable the city banks to protect themselves against the demands for the shipment of currency by means of drafts made through other banks in the same city, which would have to be met in currency at the clearing-house.

The surprising thing is not that there has been such a disturbance of credit and business, but that the situation has been met as well as it has. It speaks volumes for the credit of the banks that they have done as well as they have, and shows the confidence of the people in their ultimate solvency and strength. It is the greatest possible evidence of the wisdom, patience, forbearance, and sound, conservative sense of our business men.

It does not, however, speak well for our political wisdom that this condition has been allowed to stand unchanged without any attempt to improve our laws. This situation is nothing new, but has been known to all students of our banking and currency system and written and talked about for many years. It has produced disturbance and stringency every autumn for forty years, and panic after panic.

It is directly and immediately due to this that the crisis of October, 1907, assumed the phase of a bank panic and spread all over the country, instead of being confined to the comparatively few people and concerns who were first involved, and it undoubtedly added to and spread the business reaction in all directions.

Mr. Ridgely's remedy for that is the central bank. Mr. Forgan's remedy for it is branch banks. I may be very unscientific and uneconomic, but my remedy for it is to keep a larger cash reserve on hand and not let it go out. I think that beyond any question it is shown that the banks of the United States (which now have on hand, as I have shown, a total lawful money surplus over the requirements of the Aldrich Bill of something like $98,000,000) can comply with the requirements of that bill without contraction of the national bank loans; and that is the argument which is

made which appeals to the country at large and which has alarmed your commercial associations. It does not involve the contraction of loans to put the national banking system of the United States in this stronger shape, with a firmer cash foundation under the credits, and this is the only time when it can be done without disturbance of business. If you wait until money goes into business, until loans expand again, until there is not this redundancy of money to which Mr. Prince referred, you bid good-bye to any opportunity to increase your cash reserves in the future.

Mr. Forgan well criticized me in connection with my former recommendation to Congress for the increase of reserves, on the ground that it would have caused a panic in this country if that recommendation had been complied with at that time. It would have done so, because that money had gone into the reserve cities. It had gone into business. It had gone from the place where it should have remained, in the vaults of the bank where the deposits were for which it was liable, and into general business. To call it back meant the kind of reduction in loans that those who were opposing the Aldrich Bill have erroneously claimed would result at this time. My only excuse is, in that connection, that I did not consider that there was any immediate prospect of the passage of that bill into law at that time as a result of the recommendation of a Comptroller of the Currency. But it was my idea of registering my ideas in connection with this fundamental weakness of the national banking system of the United States. Perhaps it could be cured under a branch-bank system. Perhaps it could be cured under a central-bank system. But it can be partially cured at this time without embarrassment to existing business of the United States by the passage of that provision of the Aldrich Bill.

Mr. Gillespie. What is the motive for a country bank to withdraw these deposits if they can be counted as a part of their reserve and if they had them at home they could not lend them out? What is the motive? If that is all the money they have on deposit in reserve and central reserve cities — I believe they have a great deal more that is invested in loans up there — but if that is all of the money they have (just the portion of their reserve that is counted as reserve), if they had it in their own vaults, they could not use a cent of it without violating the law.

Mr. Dawes. No; and that is just the point. I am not making this argument for the purpose of increasing the profits of the banks. They will put this money, which they now have in their reserves, in their vaults, into reserve cities, if the Aldrich Bill is not passed, after a time, after the effects of this lesson have worn off. If the Aldrich Bill is passed, they will keep $8000 on every $100,000 of deposits in cash in their vaults, on which they will not get any interest. The banks of the United States at this time are running with stronger reserves, because they are just over this panic; and as a matter of business precaution they are doing more at this time than the Aldrich Bill requires them to do as a matter of public interest. But if the Aldrich Bill is not passed, the country banks as a whole will hold, or are liable to hold, about six per cent of their deposits — $6000 on every $100,000 — in cash. They will put the balance of their fifteen per cent reserves on deposit with the central reserve cities or the reserve cities, because in that way they get two per cent interest on it; and if they kept the full fifteen per cent in cash in the vaults, they would lose the interest. Under the Aldrich Bill requirements the banks of the country in non-reserve cities will lose the interest on $2000 out of every $100,000 of deposits. They will lose two per cent on $2000, which is $40 a year.

The Chairman. But if they got four per cent on their bonds —

Mr. Dawes. If they got four per cent on their bonds, they would keep that reserve in bonds, and that is just the point I wish to make at this time — that the Aldrich Bill is so drawn that in all probability the banks of the United States will have on hand $134,000,000 of bonds which they can take to the subtreasury for the issuance of emergency currency, and thereby increase the available currency of this country in times of panic and in times of emergency to the extent of $121,499,892.

I have made here an estimate of the additional strength over present requirements in lawful money and in possible emergency notes which will be the result of the passage of the Aldrich Bill. That is in answer to the objection which is made that the banks will not take this circulation out. Some bankers are making the objection that they will not take out this emergency circulation because it costs so much. If they do not take it out because it costs so much, it will be because they do not need it so badly. But this is an estimate of the strength with which it is possible for the banks to be fortified in case the Aldrich Bill is passed. Remember, in considering these figures, that this does not represent an increase in the amount of lawful money which they have on hand now; they have very much more than this on hand; but it is the amount of that excess which will be impounded under the Aldrich Bill and kept as an additional foundation to protect the superstructure of banking credits above it. Contrast, if you please, the smallness of these figures with the magnitude of the results which have been predicted as a result of the passage of this bill.

The country banks will keep on hand in lawful money an additional $49,209,248. The reserve city banks will keep on hand in lawful money an additional amount of

$18,298,155. Those two amounts will be all the additional requirements of the Aldrich Bill in lawful money for the banks outside of the central reserve cities. But they will have $134,999,880 in these bonds, for the reason (and that answers, I think in part, a suggestion that has been made here) that they will get four per cent interest on those bonds which are in their reserve instead of the two per cent which they would get if they had the money on deposit with the reserve agent. Taking ninety per cent, estimating the value of those bonds at par, there is a possible emergency currency which the banks of the United States can take out of $121,499,892. The latter sum represents money not now in existence, which can come out in times of emergency to help liquidate credits, which can go out to lessen the effects of a panic such as we have passed through in 1907.

If anybody does not think that that amounts to something, let him compare that amount with the money which the Treasury of the United States deposited with the banks of the country to relieve them in this crisis. It was a very good thing for this country that in this last crisis it had the Independent Treasury system, which has been the subject of attack by so many of those who want radical changes in our law. We might have been in the same position in which the Treasury of the United States was in 1837, when, with the largest cash balance that they had ever had in their history up to that time, there was only a little over $1,000,000 of it available, the rest being tied up in embarrassed banks. In the panic of 1857, after the passage of the Independent Treasury Act (which was forced upon the people as a necessity), the Government, as it did in this panic, not having all its money tied up in the banks, fed it into the banks, to the great relief of the business situation.

That emergency currency of $121,499,892 will be almost certain to be added to the circulation of this country in the next panic if the Aldrich Bill is passed. Adding that sum to the amount which is impounded and kept where it is — the two amounts I have given before — it makes a total additional strength under the Aldrich Bill which is practically certain in times of panic of $189,007,295. And the banks can still take out additional emergency circulation to the extent of the difference between $121,499,892 and $500,000,000 — to wit, $378,500,108.

If you are afraid you are going to endanger your gold, if you are afraid of the possibility of the embarrassment of the United States Government by the demands of the holders of these emergency notes (although, as a rule, the people who are after money in those times are not thinking very much about its redemption, if the promise of the Government of the United States to pay is on them, just at that particular time, though they may later), then reduce the amount of the notes which you authorize under this bill. I have not made the careful examination which ought to be made on all these things of the ability of the Treasury to make this exchange —

Mr. Hill. That is a very serious question.

Mr. Dawes. And nobody else, as far as I can see, has made any examination on that point. As yet no objection has been made that the United States Government will not be able to keep its promise to redeem these emergency notes in lawful money if the demand is all made. There would be an embarrassment if it was all made. But the point I make is that it is a very great stretching of the probable to contend that there would be any demand which would be embarrassing upon the United States Treasury for the exchange of the emergency notes into currency. In the first place, those notes are taxed, so that

they will probably be back in four months, redeemed by the banks, which will themselves furnish the lawful money to take them up.

There is not any question that these notes will be temporary, and of the fact that a request for the changing of those notes into lawful money notes to any large extent would only be made by a bank which feared action on the part of the Comptroller because its reserves were short. In a time of panic, in a time of emergency, the bank itself is not going to take the trouble to go and make demand on the United States Treasury for the exchange of its emergency notes into lawful money, because of a provision in the National Banking Law under which, in a perfunctory manner, the Comptroller's Office generally calls attention to the shortage of the reserve thirty days after it has been made good. The banks are going to take out this money to pay over their counters into circulation. Then the money is taxed so that it will be forced back in four months. The lawful money will be on deposit in the Treasury of the United States to enable it to take up these notes long before any large presentation is made. There is nothing in the point when it comes down to a practical consideration.

Mr. Prince. Right here let me ask where you find any provision in the Aldrich Bill requiring the banks to redeem this emergency currency in lawful money?

Mr. Dawes. You do not need any provision requiring them to do so.

Mr. Prince. I find a provision here that the Government of the United States obligates itself to do so.

Mr. Dawes. Yes.

Mr. Prince. I find no provision here that the bank of issue obligates itself to pay its "I O U" in lawful money. I think they would redeem in their bank-notes.

Mr. Dawes. I think, as I have said, that there are defects in this Aldrich Bill. One very great defect —

Mr. Prince. Is not that a very serious defect — throwing the extreme burden upon the United States Treasury of maintaining its present money upon a gold basis, and then adding from five hundred millions to a billion more of inflation money, to be maintained upon a gold basis?

Mr. Dawes. Yes; I was going to say that if the bill does not already do so, it should be amended so as to provide that the banks shall deposit the lawful money to take up these notes, so that the banks themselves will protect the Government in its obligation to take them up in lawful money.

The Chairman. You know the bill does say "lawful money or bank-notes."

Mr. Dawes. Yes; but then it provides also that the Government of the United States shall hereafter redeem all bank-notes in lawful money. So that, after all, —

Mr. Gillespie. It amends the law as to the redemption of national bank-notes?

Mr. Dawes. Yes.

Mr. Gillespie. They are only redeemed now in United States notes?

Mr. Dawes. Yes.

So much has been said in connection with the use of bank-notes as reserve that I wish to refer briefly to that matter. I want to say that in all my figures I have made no reference to about $34,000,000 of the bills of other banks, which would be in addition to this surplus in lawful money of $98,568,567, which the banks of the United States would have over the requirements of the Aldrich Bill. I have read what Mr. Fowler has said in connection with the use of bank-notes as a reserve by state banks; and I read with a great deal of interest last night some cate-

chism of Mr. White, which was indulged in here. It may be uneconomic, it may be unscientific, but I would like to have anybody show me where it is an injury for the state banks of the United States to use national bank-notes as a reserve.

The Chairman. What would they use if they did not use them?

Mr. Dawes. They might use lawful money of the United States.

The Chairman. What would they use if they did not use the bank-notes? What would they use?

Mr. Dawes. Bank-notes form, of our total circulation, six hundred and some odd million dollars out of a total of $2,700,000,000. There is plenty of other money. There is about $1,660,000,000 — is not that right, Mr. Fowler? [referring to Mr. W. J. Fowler] — of money in circulation in the United States to-day not in banks.

The Chairman. Let us get right down to an actual fact: What would a bank use for reserves if it did not have bank-notes?

Mr. Dawes. A state bank?

The Chairman. Yes; any bank?

Mr. Dawes. It would use government money — lawful money.

The Chairman. Very well. The lawful money is maintained upon a gold basis by the Government, is it not? In other words, they would have gold, would they not? If they did not have bank-notes, they would have gold or its equivalent?

Mr. Dawes. Theoretically.

The Chairman. Therefore it is true, is it not, that every bank-note that a bank holds excludes just that much gold from its reserve?

Mr. Dawes. Mr. Fowler —

The Chairman. Hold on; is not that right?

Mr. Dawes. No; I do not agree with that conclusion at all.

The Chairman. Just a moment; let us follow it out and see. If they did not have bank-notes, you say they would have what is equivalent to gold, because the Government maintains all its money on a gold basis. Therefore, if they did not have bank-notes, they would have gold. Is it not, therefore, evident that if you have five hundred millions of bank-notes in the reserves of this country, you have excluded five hundred millions of gold?

Mr. Dawes. Now, Mr. Fowler, just let me answer that, because I think that is a fair sample of your reasoning. You are a recognized leader in this country on this subject, but let me give you my idea of that form of argument; I do not, when I am running a state bank, sit down and figure out how my dealing in national bank-notes over the counter is going to affect my conduct of that business in regard to my loans. I handle the national bank-notes just as I would handle the government money of the United States. It is exchangeable, for all practical purposes into money of the United States. Nobody makes any question about it. Therefore, these "scientific" and "economic" arguments in connection with the use of bank-notes in state banks as reserve have never appealed to me as a practical man.

The Chairman. Do you know that from 1837 to 1844, in England, bank-notes were used as reserve, and drove every dollar of gold out of Great Britain?

Mr. Dawes. I have never made an examination of that particular question.

The Chairman. That is a historic fact. They began in 1834 to use bank-notes in Great Britain as reserves; and in 1844 they were absolutely stripped of gold.

Mr. Dawes. Let us analyze your objection in connection

with the use of these national bank-notes in state bank reserves. You do not object to the country national banks holding a part of their reserves on deposit in city banks, do you? No. None of the bankers do. In your bill you provide for it.

The Chairman. Do you mean of their balances?

Mr. Dawes. Of their balances?

The Chairman. Certainly.

Mr. Dawes. It is due them, you see.

The Chairman. Certainly.

Mr. Dawes. Now, what is a bank-note? A bank-note is a written promise to pay on demand made by that bank, secured by government bonds. You say that you are willing to let the state banks and the national banks bank on a book credit as a reserve in these reserve cities; and yet you say that they cannot bank on the written expression of that debt, backed by a government bond.

Another thing: I do not think that you make proper estimates in connection with this use of bank-notes for state reserves. You say: "Already $200,000,000, or nearly one quarter of all the reserves now held by the banking institutions of the United States, are in bank-notes. That is, of the $12,000,000,000 deposits in the banks of the country, between $2,500,000,000 and $3,000,000,000 are based upon bank-notes, mere promises to pay." That is all a reserve balance is; only this is in writing, and secured. "And these mere promises to pay are again in turn based upon a debt of the Government, another mere promise to pay, which is not due for about twenty-five years, and then to be paid, if at all, out of taxes to be collected. How long will it be before all of our deposits will be based upon mere promises to pay, which in turn will be based on the debt of the Government, the debt of States, the debt of municipalities, and the debt of railroads?"

I have taken occasion to look up the amount of these bank-notes that are held in the banks. I do not find any $200,000,000. I find in the Report of the Comptroller of the Currency for 1907, on page 49, that the amount of national bank-notes which are held by the national banks (6429 banks) is $28,100,425, and all other banks (13,317 in number) $12,724,605. That is a total of $40,825,030. I do not see where you get your $200,000,000.

The Chairman. I know two banks not very far from Chicago that have, between them, $5,000,000; at least, I have been told that. I will tell you. I got those figures from the Comptroller's Office, from which I deducted the difference —

Mr. Dawes. I got those figures from the Comptroller's Office myself.

The Chairman. Oh, yes; that is their statement.

Mr. Dawes. But I do not see how you reconcile a statement of that sort with these figures.

The Chairman. But, Mr. Dawes, Mr. Ridgely told me just before I made my speech in the House that he did not believe that there were $150,000,000 of bank-notes in circulation, leaving $500,000,000 as a reserve.

Mr. Dawes. The point I want to make is that it is all a question of belief; and if the statistics in the Comptroller's Office, made from the sworn reports of the banks of the United States, show that there are only $40,000,000 of these notes held in both state banks and national banks, how do you reconcile the statement (when the only possible source of complete information under oath is contained in those reports) that there are $200,000,000 of them held by the banks?

Mr. Weeks. Do you, as a state banker, keep them separate?

Mr. Dawes. As a state banker?

Mr. Weeks. Yes.

Mr. Dawes. Mr. Weeks, I am sorry to say that I really do not know.

Mr. Weeks. Can you tell from your own report how many national bank-notes you have in your bank?

Mr. Dawes. No; and that is just the point I am going to make about this whole thing — that it does not make any difference; and that this talk about the distinction to be made between national bank-notes —

The Chairman. You say there that you have the sworn statement of the state banks that they only have $13,000,000 of these notes, and yet you say that you do not know how many you have.

Mr. Dawes. Yes; but how do you know that they hold $200,000,000?

The Chairman. Do you think there is a single state bank that makes any difference whatever in them? You said you never did — that you treated them all alike. Do you not know, as a matter of fact, that all state banks use them indiscriminately, and never make any difference? Do you not know that?

Mr. Dawes. I think there is a good deal in that.

The Chairman. I will tell you how I came to that conclusion. I did it by a process of deduction. I put it at $200,000,000, and Comptroller Ridgely puts it at $500,000,000.

Mr. Dawes. I just want to show the uncertainty of these estimates which are made of the relation of national bank-notes to the reserve system of the country. As a matter of fact, you do not know; and the only statements we can get which are official on this subject show that there are only $40,000,000 kept in the reserves of the national and state banks. If there are $200,000,000, what difference does it make? The point I make is this: that a

national bank-note is a written promise of a national bank to pay, secured by a government bond; and Mr. Fowler makes no objection to banking on a debt the evidence of which consists of an open account.

The Chairman. How do you know?

Mr. Dawes. What is it all but playing on words? And yet you use figures here which intimate that that has some relation to the matter of loan contractions.

The Chairman. How do you know that I am not in perfect agreement with you as to the wisdom of increasing the reserves in the country? How do you know?

Mr. Dawes. I hope you are, Mr. Fowler; and I do want to say this —

The Chairman. I have never said that I was not.

Mr. Dawes (*continuing*). That this question as to whether these notes are reserve or not bears upon the question which I have brought out of the real lack of importance of the discussion as to whether those emergency notes are legal reserve under the law. And if that is so, does it not lessen (that is what I am getting around to) the importance of any point you might make about the embarrassment of the Government in regard to the redemption of these notes in gold coin?

The Chairman. You think they are legal reserve?

Mr. Dawes. No; but the point will never come up practically. They will not use them for making a demand for lawful money of the United States.

The Chairman. Why not?

Mr. Dawes. They will pay them out over their counters to the depositors who are drawing their money in time of panic. They will go into circulation; and before any of these notes are presented by the people who got them in these small amounts for redemption in lawful money the six per cent tax and the nine per cent tax after four months

will drive the lawful money of the country into the Treasury of the United States to take them up. If the bill needs amending so as to make it obligatory upon the banks to put in lawful money to relieve the Government of that demand, it should be done. There is no practical point to your objection.

The Chairman. Right there I want to call your attention to this matter: You say that you would amend the Aldrich Bill, now, just think of it, so as to compel these banks to deposit lawful money. In other words, you would impound $500,000,000 of lawful money in the United States Treasury and leave $500,000,000 of pure credits afloat?

Mr. Dawes. The impounding of that money is simply for the retirement of this emergency circulation.

The Chairman. It is impounded, however, is it not?

Mr. Dawes. No; it is not impounded.

The Chairman. What do you do with it?

Mr. Dawes. It is paid out, of course, to redeem the emergency notes, and goes to the public again. It will not stay in the Treasury.

The Chairman. But who is going to send in the notes? It takes almost two years and a half to redeem our notes now.

Mr. Dawes. That is very simple. The money is impounded there for the purpose of stopping interest on the emergency notes which are out in circulation; and the emergency notes are so printed that unquestionably a great many of them, payable on demand in lawful money of the United States, will be in circulation months after the banks have ceased to pay interest and have impounded the lawful money. But what difference does it make if the lawful money is there to take them up? There is no impounding; there is no contraction of the currency; there is no locking up of that money.

The Chairman. Is there not a contraction of the reserve to the extent of $500,000,000?

Mr. Dawes. Not at all. I have just shown you that the possible contraction of the reserves is less than $67,000,000.

The Chairman. Just a moment, now, at this point. If the banks issue $500,000,000 of this emergency currency, and then, to get rid of the tax under your proposed amendment, bring in $500,000,000 of lawful money, they do impound $500,000,000 of the reserves?

Mr. Dawes. Surely; but what difference does it make? There is $500,000,000 of these notes that will have to stay out in circulation.

The Chairman. But you do not propose to have them used as reserves, do you?

Mr. Dawes. I say that the point in connection with the reserves is a point that is of no practical consequence. I say that national bank-notes ought to be used as reserves. I do not think it would make any difference. I have yet to find anybody, as I say, from the practical standpoint, that has been able to show me where there would be any practical difference if national bank-notes, secured by government bonds, were used as reserves right now in other banks.

The Chairman. Then I want to make your position clear — that you are in favor now of making national bank-notes a legal reserve? That is your position?

Mr. Dawes. I would not object to it; yes, sir.

The Chairman. And you are also in favor, on top of that, of making the proposed emergency notes lawful reserve because they are the same thing?

Mr. Dawes. If they are redeemable in lawful money of the United States, yes; there is no reason why they should not be made lawful reserve.

The Chairman. That is all.

Mr. Dawes. There is no objection whatever to it.

The Chairman. Let me ask you a question here.

Mr. Dawes. Just one minute.

The Chairman. All right.

Mr. Dawes. I think the Aldrich Bill should be amended in this regard: I think it was a great mistake that railroad bonds were taken out of the bill as a basis of security for these emergency notes. I think the Aldrich Bill should be so amended that in some way the banks in the central reserve cities can use commercial paper as a basis of security of these notes on some proper margin of security. The six per cent tax which is paid on those notes will, in my judgment, furnish a fund which will be sufficient to take care of any redemptions which may be in default on account of any failure. And if in some way we can broaden the basis for the issue of these notes, every step in that direction is of the greatest importance. It was a mistake to have narrowed the basis of this security by eliminating those railroad bonds. It was done for political reasons. But if they have experienced that difficulty in the Senate in connection with railroad bonds of the kind that are provided for, it is a fair illustration of the difficulties of legislating in connection with a subject of this sort.

The Aldrich Bill is not perfect. There are these flaws in the Aldrich Bill in connection with the matter of directors; for certainly it is just as important to keep good men on the boards of directors of banks as it is to drive bad men off. Under this provision of the Aldrich Bill, if it is passed as it is now, we shall have to get somebody besides business men to serve on the boards of banks. A great many people seem to think that if we can only put the banking business of the country into the hands of men who are not men of affairs, we shall in some way better it. As a matter of fact, we need the best business men on these boards of directors. I think — and when it comes to that we all have plans of

our own — that there ought to be some limitation on the right of directors of national banks to borrow from their own banks; and I have made a recommendation in connection with that matter. But this broad, sweeping provision will have the effect of driving out of the banks, which are the custodians of the savings and the surplus of the people, the men who are best qualified to administer upon them as a trust.

The general point that I make in connection with the Aldrich Bill is that its principles should at this time find legislative expression in some way. I say that the fact that it does in a sense perpetuate, if you please, the theory upon which our banking business has been built up this far is no reason why this country should be allowed to go without some legislation which will enable the banks, during the short time of the existence of a panic, to give relief to this country and not be compelled to subject it to the bank liquidation that there was in the last panic. A grave responsibility rests upon those who have these plans of their own if they result in the country going without legislation of this sort — and they are able plans; they are well-conceived plans. Mr. Fowler has been one of the leaders in the education of the people in connection with these banking problems, but how near has he got the people or even this committee to a consensus of opinion upon the advisability of his plan? You may say that the Fowler plan is the leading plan of the various plans of the United States; but how nearly are the members of this committee (who have given thought to the subject, who certainly are more divested of prejudice than the ordinary collection of men who gather in public places, or in Congress, or in the Senate, we will say, to discuss this question) a unit on this particular bill? Take the American Bankers' Association Bill, providing for taxed emergency circulation — what proportion

of the people are united behind that bill? You have no chance to pass a radical bill at this time, as I think you nearly all agree — I do not know, of course, but I know it certainly seems to be the expression of those best informed in connection with the legislative situation at this time that there is no chance to pass a bill involving a radical departure from the system we have. Our people are conservative. They have made experiment after experiment with the financial laws of the United States. This system is the result of a sad experience in such panics as the panic of 1837 and the panic of 1857.

The Chairman. I beg your pardon. It is not founded on a single panic we ever had, nor a single mistake we ever made. I challenge you to name it.

Mr. Dawes. The Independent Treasury system —

The Chairman (interrupting). A curse for sixty years.

Mr. Dawes. You challenge me to name it? I name it right now — the Independent Treasury system, which so many complain of at this time, was the direct result of the experience of the United States Treasury in the panic of 1837 — and that Independent Treasury Act saved the condition of the United States Treasury and saved its credit in the panic of 1857. It was the direct result of the sad, bitter experience that this country had in connection with the deposits of the Government of the United States in the banks of the country, as you propose in your bill in connection with the national banks of the United States hereafter. I am not criticizing your bill, Mr. Fowler, because I have not studied it sufficiently to know whether you have properly safeguarded that particular point or not; but I do say there is an instance where the act establishing the Independent Treasury system, one of the most fundamental and important parts of our entire financial system, was passed as a result of the condition in which the

United States Treasury found itself after the panic of 1837, because it did not lock up —

The Chairman. When was a subtreasury established?

Mr. Dawes. In 1846.

The Chairman. It was not the result, then, of the panic of 1837.

Mr. Dawes. It was the result of the panic of 1837; and the same arguments were used during the years that followed that were necessary finally to bring about that legislation. One bill was passed and then repealed; and then, in 1846, this action was taken. The question at this time is, Is it possible to get together upon some remedial legislation which will let the banks of the central reserve cities pay their debts to the country banks in times of panic? That is the important thing, and the trouble is, that we obscure this question with discussions of this bill and that bill, involving fundamental changes. The Aldrich Bill, in its present form, is unquestionably defective. If I have failed to see all of its defects, why does not the Banking and Currency Committee attempt to remedy those defects along the line of something that it seems possible to pass?

The Chairman. There is nothing to start with.

Mr. Dawes. I think you have a very good start. I think it is perfectly practicable, without jeopardizing in any degree the stability of the currency of the Government of the United States, to make it possible for the banks to give us at least $121,000,000 of extra emergency circulation. And I do hope that the Aldrich Bill may be amended so as to provide a larger basis of security, to make the conditions less onerous and less difficult. There are a great many objections of that sort, that have not been brought out, to the cumbersome way in which it works. But my observation is that in times of panic — and I sat in the clearing-

house meetings in the city of Chicago at the time of the last panic — the banks are pretty ingenious about availing themselves of any device for getting additional currency to pay their debts. If you let the opportunity pass at this time for remedial legislation, we shall not have any bill passed until we have again passed through such a crisis as we experienced in 1907.

This is a time to sink differences as to radical plans, impossible of legislative accomplishment at this time, and to set our minds to the consideration in a practical way of what is possible. It is not a question of what is best theoretically in this life, but of what is best at the time being, considering the rights and the opinions of the other men who have a voice in this form of government of ours. This is not a time when any one leader, like Alexander Hamilton, through his genius, and because of the homogeneity of the people, and because of the pressure of other problems of importance upon other great men who might be interested in the question, can centralize in himself the confidence of the people of the United States in such a way as to let him found a banking plan. No plan of any one man will ever pass into law. Concessions will be made when those things come up practically for passage before the Congress of the United States. With our diversified interests, with our diversified opinions, with the great breadth of our country, any legislation which will be passed in this country will be composite, and in every instance it will be a compromise. And yet I have seen very little effort to reach a common basis after this time of great emergency, when we were very much nearer going over the brink than the great majority of our people think at this time in connection with the situation that existed in New York. As Mr. Fowler very well said, it was because some men like J. Pierpont Morgan rose above small things and, at self-

sacrifice, helped the situation, that we got through as well as we did.

The great misfortune of this country at this time is that we are spending so much time discussing the faults of our system and comparing our system with others. Andrew Carnegie said the other day that we had "the worst banking system in the world." As a matter of fact, the banking power of the United States is nearly forty per cent of the total banking power of the whole world. We have built up our banking system from the bottom up; not from the top down. We have built up our banking system under a different theory from that of Continental Europe. We have nearly twenty thousand differentiated banking units, independently manned, where the man who goes before one of them has the chance of personal contact with the man of sole authority in the matter of making loans. He does not have to go to the agent of a branch bank, acting under delegated authority, exercised at a distance, and necessarily circumscribed.

This system of separate and distinct banking units is always essential for the best development of an undeveloped country. Our banking system is that which has been best for the magnificent commercial development of this country, and we do not hear anybody apologizing for that. Hand in hand it has gone with the commercial development of this country; and the commercial development of this country is dependent upon this banking system of ours. And yet we hear it held up in comparison with the banking system of the Dominion of Canada, whose entire banking power is less than the banking power of the one city of New York by nearly fifty per cent. That is the model that is held up to us.

I say we have unique conditions. We have a unique country. We have a unique theory on this side of the water

that it is the right of the small institution and the small business man to protection which has resulted in our marvelous commercial and banking growth. I have no patience with this wholesale and widespread criticism of the greatest banking system in the world. See how it passed through the last panic — how small the losses to its depositors. Why, two banks failed under the branch-banking system of England, to which Mr. Fowler was referring, where the losses were about as much as the losses of the entire national banking system of the United States for the whole period of its existence. You cannot break some great central bank here and spread misery and desolation throughout the United States. We have too many feet to stand on.

There are compensations in our system. It may be that as we grow older, as our country grows and becomes more developed, we can make more of the savings incident to branch banking; that we can have some of the benefits of the fluidity in the flow of circulation incident to branch banks and incident to a central bank. But that is in the future. We cannot reach it at this time legislatively in any way. And instead of holding our banking system and its defects up to the scorn of our people; instead of seeking to show how much better we can make the banking system of the United States if any one of us could reform it, if any one of us could change the whole system and start the kind of a system which they have in Continental Europe, consisting of the large bank ramifying out through its branches, let us pass at this time, as patriotic citizens, that kind of a law which will enable this magnificent banking system of ours in the next panic not to repudiate its obligations. The banker in the reserve city, who had to refuse the little country banker, located by himself out in the country, the money necessary for him to keep his banking doors open,

without a chance to put the iron fence around his money that the clearing-house arrangement did in the cities of the United States, felt as if we should have some remedial legislation. And it resulted in the expression, I dare say, in every clearing-house in this country, of the need of something like that in time of emergency.

The men who expressed that need are not students of economics. These resolutions which come to you are not the expressions of those men in large numbers who have studied this question. If you look at the resolution of the clearing-house of Lincoln, Nebraska, you will see that there is a very suspicious similarity to the language of the resolution of the clearing-house of the city of Chicago. People in connection with these questions are apt to take at par the deductions of the man who make a study of them; and the great misfortune in this country is that there are not more men making a study of them who have not bills of their own to get through Congress. I do not mean in any way to reflect upon the chairman of this committee, who has done one of the greatest works in the education of the people of this country on this matter. But I do maintain that his greatest usefulness, and your greatest usefulness, and my greatest usefulness, and the greatest usefulness of any man interested in this question at this time, is not to pick flaws in the Aldrich Bill except for the purpose of making a better suggestion. It is practicable, it is possible, to give emergency circulation to the central banks and to get the banks —

Mr. Waldo. If we, or any one of us, believe that the Aldrich Bill would be a serious detriment to the country, should we feel inclined to pass it?

Mr. Dawes. Not at all; not at all. But there should be a sincere effort made to correct the defects of the Aldrich Bill in some way.

Mr. Waldo. Why should we try to correct that which we believe to be absolutely bad?

Mr. Dawes. If that is your conviction, founded upon a careful study, of course you will be governed by your own sense of duty. But my own hope is that at this time, considering the great need of the country, we may have intelligent coöperation for the passage of some bill at this time giving relief. And I do believe that the Aldrich Bill, faulty as it is in certain respects, constitutes at this time the best groundwork for the passage of helpful remedial legislation.

(At this point, by request of Mr. Dawes, the stenographer read aloud the question asked by Mr. Prince at the early part of this session, as follows:)

Mr. Prince. It has been stated before the committee that for about nine months of the year there is a redundancy of the currency; that during the crop-moving season of the year there is a greater demand for currency; and that if the provisions of the Aldrich Bill with reference to the reserve were in force during those crop-moving seasons of the year (to illustrate, at Minneapolis and St. Paul), they would be absolutely helpless to comply with the provisions of the bill and at the same time give the currency necessary to move the crops. You are giving, if I get your statement correctly, the statement of the month of February, when the banks throughout the United States, as a result of this currency trouble, had been piling up reserves in their banks. What is your answer to the other statement as to the crop-moving season?

Mr. Dawes (*during the reading of the foregoing question*). Where was that stated?

Mr. Prince. I think you read it a while ago. You read something about two hundred millions, I think — that in the crop-moving season there is two hundred millions re-

quired. That is in line with the statement of the gentleman from Minneapolis, who declared before this committee (I will put that in) that if the reserve provision, which is no part of an emergency measure at all, was inserted in the bill, and became a part of the permanent law, it would seriously cripple and impair the business of the Northwest.

Mr. Dawes. My answer to that is this: That the whole purpose of this bill is to keep more money in the banks where the crops are to be paid for, so that the demand of the country banks on the reserve cities and the central banks for currency, which produces this contraction of credits there, will not be necessary to that extent. In other words, that it is only in times like these, when there is a redundancy of money and when the bank reserves are full, that it is possible to impound it by such a provision as the Aldrich Bill contains, so as to render unnecessary this trouble in the fall incident to the shipment of $200,000,000.

To be sure, as I show here, the Aldrich Bill will impound only about $67,000,000 of this $200,000,000 in the country banks; and all that, of course, would not be in Western country banks, so that it would be less than that. But to that extent it prevents the demand for so large an amount of currency. For when money is redundant, as Mr. Prince says, in times like these, it is shipped down to New York and it is loaned by the banks there, since they have to get it back in the fall, on the Wall Street speculative exchanges. Then your credits puff up. Then, when the banks commence to ship the currency, comes the congested condition. Then come the high interest rates. Then comes the frightening of the people, as a result of trying to get the money they need. So that I do not see just the point of the argument that Mr. Prince is making, because the Aldrich Bill will lessen the amount which will be obtained from

these country banks, and will therefore lessen the disturbance incident to the shipment back of the money. My contention is that there is no need in general business of all of this cash reserve that the banks hold at this time, because if there was, they would use it in making their loans, etc. But they have been frightened by this last panic, and they are keeping it on hand. Gradually, as we get away from it, they will send it back into the reserve cities to get the two per cent. Confidence will be restored, and in a short time there will be this great disproportion between the aggregate deposit credits and the cash reserve of the country, which, in time, precipitates trouble such as we have had.

Mr. Pujo. I should like to ask you one question there: Do you believe it is necessary for this Congress to pass emergency legislation of some kind?

Mr. Dawes. I do.

Mr. Pujo. To avoid another panic this fall?

Mr. Dawes. I do not think panics can ever be avoided.

Mr. Pujo. I mean a panic this fall?

Mr. Dawes. But the evil results of panics can be very greatly mitigated by the passage of legislation providing emergency circulation. My own idea about emergency circulation, if I may be pardoned just a minute, is more along the line of Mr. Fowler's. I made a recommendation as far back as 1899 that banks should be allowed to issue currency unsecured by any bonds, subject to a heavy tax like this, along the line of Mr. Fowler's theories, which, as a rule, are along correct and scientific lines. But let us do something, gentlemen. If we must take bonds (which makes it cumbersome and difficult to get) in order to get this emergency circulation, do provide for some sort of an emergency circulation, so that the banks will not have again to repudiate their obligations.

The Chairman. Do you think there is any probability of a panic within a year or two?

Mr. Dawes. I do not; no, sir.

The Chairman. There is no chance of one?

Mr. Dawes. Not the least. There is going to be no trouble soon.

Mr. Waldo. You do not think there will be any need of this kind of emergency currency —

Mr. Dawes. For many years.

Mr. Waldo (continuing). For ten or twelve years, probably?

Mr. Dawes. I should not like to go that far.

Mr. Waldo. For several years, at any rate?

Mr. Dawes. Yes. I do not think there is any danger, therefore, of any very great demand on the reserves of the United States. It is purely a temporary emergency measure. It will be found such. But it does not make any difference if it is fifty years before we need it, it should be passed at this time.

Mr. Waldo. Do you not think it would be better to try to have a commission appointed, or in some way arrive at a proper system of currency at this time, rather than to adopt some emergency measure that would perhaps prevent any other legislation?

Mr. Dawes. As I tried to explain before, I am never a sympathizer with a postponement of the correction of an evil. I do not see any connection between the appointment of a commission to consider some better change and the giving of this relief which will make it possible for the banks of the country to get along better through a panic. Pass your emergency bill, faulty as it is, and give the business interests of this country relief.

Mr. Waldo. If I understand you at all, Mr. Dawes, you do not pretend that this bill is going to give any relief except at the time of such a panic?

Mr. Dawes. That is all.

Mr. Waldo. The real relief that the country needs is some measure by which the banks can change their credits from book form to note form, is it not? Is not that the real trouble?

Mr. Dawes. I do not want to answer that question generally. I have opinions on that subject, but I think that is one need. Yes; that is a need. The difference between you and me in our judgment is this: I do not think you will have any chance in the next fifteen years to pass any bill relating to your banking system radically changing the existing order of things, desirable though it may be, because you have not done anything since the panic of 1893 in connection with banking.

The Chairman. Oh, yes; we have.

Mr. Dawes. You passed the law of March 14, 1900, of course.

The Chairman. Fourteen years ago (I will go back as far as that) you could not find in the American Bankers' Association, with a search warrant, a credit-currency man, but last fall at Atlantic City they were unanimously in favor of a credit currency.

Mr. Dawes. Yes; and I want to say in that connection that it would be a great deal better for the passage of any radical reform measure if the American Bankers' Association would entirely absolve itself from the responsibility of outlining the financial legislation of the United States. I am talking of that matter from the practical standpoint.

Mr. Waldo. Where are you going to find anybody who —

Mr. Dawes. Let me finish on that point. That has been one of the troubles in connection with it. If we were going to make a law regulating the packers in connection with

the inspection of meats, we should not go to consult the packers about the kind of a law to get up.

Mr. Waldo. But that is what we did.

Mr. Dawes. You may talk with them; but —

The Chairman. That is just what we did do.

Mr. Dawes. Of course it is all helpful in this way —

The Chairman. I only speak of that matter as showing the progress of education.

Mr. Dawes. Yes; education is progressing; but in my judgment it has not yet progressed to the point in this country where you will get remedial legislation until after you have had another period of trouble. You did not get such legislation satisfactorily at all after the panic of 1893. You got some advance after the panic of 1873, in the Resumption Act. You got some after the panic of 1893, in connection with the passage of the gold standard measure; and you can get something now, after this panic, if you will get together. But if you let this opportunity pass to get through some remedial legislation, and let the business of the country run on, and it goes on for a while without any serious bumps of difficulties, in my judgment you will get through no radical bill, at least no bill more radical than this. It is hard enough to get through this measure, which is really an extremely conservative one, despite your own alarm about certain features of it, Mr. Fowler. Nobody denies the necessity of relief at this time so far as the general business of the country is concerned. Nobody has portrayed more eloquently than you the necessity of relief at this time. But at a time like this, when we can do it, let us strengthen our cash foundation in connection with our reserve, and get some sort of emergency circulation for relief.

Mr. Waldo. Do you not understand that the real question is whether this is relief or not? That is the real ques-

tion. The question is whether this prescription will not kill the patient instead of relieving him. That is the real trouble.

Mr. Glass. Why should we immediately pass the Aldrich Bill if you say it will not be utilized for twelve or fifteen years?

Mr. Dawes. I have tried to explain that. I have tried to make it clear that it is only at times when public sentiment is largely aroused in the country as to the necessity for action that we can get legislation which affects the things in which the great body of our people are interested. The *status quo* under our system of government, with the veto power and the passage by the two houses of Congress and the method of enacting laws, is such that it is very difficult to disturb legislative conditions, except when public feeling is generally aroused to the necessity of action, as it has been aroused by this panic. Some legislation ought to be the result of this panic. If you do not pass it at this session of Congress, and business goes on in its usual way, and credits become expanded, and this money which is now in the banks of the country goes out into speculation and goes into Wall Street, you will have your credits built up again, and you will not get any relief in the matter of reserve laws, because the point will be made then that Mr. Forgan made when I was Comptroller of the Currency, that after the money has gone into business you cannot draw it out without practically creating a panic.

A time like this, when you have stopped your machine, got it geared up right, and built up your cash foundation, is the time to act. The idea of a country bank with a hundred thousand dollars of deposit liability trying to run with six thousand dollars cash —

Mr. Waldo. If you were advocating a bill simply to make all the banks keep their reserve in their own vaults, I could

see that your position would have something behind it; but instead of advocating that, you are advocating the depletion of reserves by putting them into bonds — into permanent investments.

Mr. Dawes. It is a depletion of reserves by putting them into bonds, which become immediately available in time of emergency with the actual cash; so that this plan does not decrease the amount of lawful cash in the banks at this time, but adds the possibility of that amount to it.

Mr. Waldo. I think there is a fault in your statement there, because it certainly does deplete it. It seems to me it must. The process is that, first, you must take your lawful reserve and buy these bonds. That is your first proposition?

Mr. Dawes. Yes.

Mr. Waldo. Your next proposition is to deposit your bonds and get notes?

Mr. Prince. Ninety dollars for each one hundred dollars.

Mr. Waldo. Yes. The next step, you say, is to take those notes back to the United States and get lawful reserves for them. The next step after that is that the United States will say, "Pay up your notes"; and your lawful reserves go back into the vaults of the United States Treasury, and you are right where you started.

Mr. Dawes. Will you let me make a statement?

Mr. Waldo (*continuing*). Except that you have to pay expenses of the operation.

Mr. Dawes. Let me make a statement as to what —

Mr. Waldo. That is the result; is it not?

Mr. Dawes. No, sir.

Mr. Waldo. How are you going to compel the United States to keep your notes and not compel you to pay them back again?

Mr. Dawes. Just let me trace exactly what takes place.

You have traced it in your way. Now, please let me go ahead without interruption.

Mr. Waldo. Yes; I am going to —

Mr. Dawes. Go ahead if you want to.

Mr. Waldo. No; I am going to let you go on.

Mr. Dawes. The banks, in the first place, will buy, in my judgment, about $134,999,880 of these bonds. They will go into their reserves. In buying those bonds they are not going to lessen the lawful money in the banks of the United States. They will not use currency to buy those bonds. They will sell some of their other bonds. They will contract some of their loans, perhaps. I do not think they will; but let us say that they will contract some of their loans, and they will buy that $134,999,880 of bonds, which is a very small transaction for the national banking system of this country, with over $8,000,000,000 of resources. Well and good. They have bought them. They have not lessened the amount of lawful money in any of the banks of the United States — not a bit. Then we will say that an emergency comes up when we need more currency. The banks, as a result of that transaction, are running with less reserve in cash resources — that is where the confusion exists — but not less reserve in lawful cash. They are running with two per cent more reserve in actual lawful money than they had before they bought those bonds. In buying them they have not reduced the lawful money on deposit.

Well and good. You have got up to that point. There is no decrease there. Now, here is where the increase comes. When the panic comes, and there is need of additional circulation in the United States, these banks, that have not diminished in any way by that purchase the amount of lawful money in their hands for use and for loaning, will take those bonds, which are a part of their reserve, — I am just stripping this of technicality, — to

the subtreasury of the United States, we will say, at Chicago or somewhere else, and leave the bonds, and get ninety per cent of their value (which, as I figure here, would be one hundred and twenty-one million and some odd dollars) in emergency notes. That would be a distinct addition to the circulation of the country. They would have to pay on that circulation a tax of six per cent for four months. To be sure, the Government of the United States would be liable, if called upon, to redeem those notes in lawful money during the four months that they might be out. As a matter of fact, they would probably be out on an average much less time than that. The clearing-house certificates were out on an average much less time than that, and they would be fully as expensive as clearing-house certificates. They would come in mighty quickly, I will tell you; and the banks will be very glad to get them back. They would be just like clearing-house certificates in that respect. They would be in before the four months had elapsed.

But suppose somebody did come and make a demand for lawful money on these notes, Then the emergency notes would be withdrawn from circulation and the lawful money would go out. But the notes are printed alike, the emergency notes and the other bank-notes; and when the banks came to redeem them, they would deposit lawful money of the United States, which would cause a contraction of the currency after the need of the extra amount was past. It is an addition, not a subtraction. It cannot be figured out as giving anything except a temporary increase in the circulation to the extent of ninety per cent, the amount allowed by this bill.

Mr. Waldo. That would be assuming two things. In the first place, it would be assuming that the bank already had its money invested in these bonds.

Mr. Dawes. No; I am not assuming that at all.

Mr. Waldo. You must assume it.

Mr. Dawes. That has been the trouble all through this discussion. Many of the bankers of the United States have confused lawful money and cash reserves.

Mr. Waldo. Let us drop the lawful money altogether.

Mr. Dawes. Very well; let us drop it altogether.

Mr. Waldo. It must be national bank-notes, or in some way —

Mr. Dawes. Not at all. The balances will be in checks and drafts. If we want to go into the market and buy municipal bonds, do we take lawful money or bank-notes? No; we give our cashier's check. We do that business on the same terms that ninety per cent of the business of the United States is done — in a check or draft. Do you suppose that the national banks of the United States cannot buy $135,000,000 of bonds without using lawful money? Why, the bulk of the business of this country is done on credits. This is a question of lawful money that we are talking about now. The banks have $714,000,000 of bonds and securities to sell if they desire. They do not even have to contract any loans if they do not want to in order to get these bonds.

Mr. Waldo. They do not get lawful money, do they? They get their own notes; that is all. They get a right to use their own credit. That is all they get.

Mr. Dawes. Why, of course, they get a right to use their own credit, in a shape which will pass from hand to hand and which will tend to relieve the country in time of emergency. There is no contraction about it. There is no impounding about it which will result in a contraction of currency in the United States, but it will result in an addition. If the banks hold this part of their reserves in bonds under the Aldrich Bill, it will result in time of panic in a

possible addition to the money which can be used in the United States in business, from hand to hand, of at least $121,499,892. And in addition these country banks will hold about $67,000,000 more lawful money on hand with which to supply their depositors. It is perfectly plain, I hope. If anybody has not grasped that, I should like to be questioned further about it, because I do want to make that plain — that the Aldrich Bill is not going to tie up anything; that it gives additional emergency circulation.

Mr. Weeks. Let me call your attention to this one point: You have discussed this question of the location of reserves much more exhaustively than has heretofore been done before this committee. But take the country bank that has to keep a million dollars of reserve. Under the present law it keeps $400,000 of that money at home and $600,000 with the reserve agents.

Mr. Dawes. Yes; under the present law; you are right.

Mr. Weeks. The country banker comes here to this committee and says: "If you require me to keep more at home, eight per cent or ten per cent, or whatever it is, I will have to call loans in order to do that." Why? "Because that $600,000 is necessary for the proper conduct of my business with my reserve agents. I have to have $600,000 in their hands all the time, in Louisville, in Atlanta, in Chicago, in St. Louis, in San Francisco, in Boston, in New York, and in Philadelphia. I cannot carry on my business unless I have $600,000 with them. Therefore, if you compel me to bring some of that $600,000 home, I will have to call my loans and restrict my credits at home in order to do it." What have you to say to that?

Mr. Dawes. One of the most experienced bankers in the city of New York, Mr. George F. Baker, president of the First National Bank of New York, was talking with me recently, and I asked him his opinion on that very subject.

He said: "If we have these bonds on hand and know that we can get this money, we will dip into our reserves in time of emergency, and we will use them more fully. We will ship more currency to the Western banks if we know that when we do we will not have to shut up because we cannot get anything to pay out over our counters in an emergency."

There will be, with this amount of possible emergency circulation which the banks can take out, a freer use of reserves. That will offset to some extent the point which you make. I do not admit at all, Mr. Weeks, that the necessity for scattered accounts is such that it will make it necessary for the banks to carry any materially larger reserve. It may cause some difference, but not to the extent necessary to cause, with $98,000,000 of surplus lawful money in the banks of the United States now, any material contraction of loans such as ought for a minute to be considered in connection with the benefits to be derived from this kind of a bill.

Anything which goes to increase the amount of cash reserves in the country banks and to relieve us of this very great menace which all our financial authorities in the past have repeatedly called our attention to, ought to be put into effect at this time. It may involve some hardship on the country banks, but this is not simply a banking measure. This is a measure for the people of the United States. That is the point about it. The trouble is that we drift off too much into such questions as to how it will affect (as Mr. Prince said there) the banks that will have to buy these additional government bonds — the question of expense. There is no impounding of lawful money in that proposition of bond purchases, any more than there was in this emergency matter. That is only important in so far as it affects the probability that the banks will use this measure of relief for the benefit of the public. You repre-

sent, here on the Banking and Currency Committee, the people of the United States. You are concerned, of course, with the protection of all the rights of the banks under the law. But primarily the question of profit or lack of profit to the banks is important with you only on the point as to whether or not profit or the lack of profit will cause them to do something or refrain from doing something in the public interest and for the public welfare.

Mr. Weeks. We are not legislating for the purpose of giving banks profits; but we have sense enough to know that if we legislate in a way that is going to hurt the banks, it is indirectly going to hurt all the people.

Mr. Dawes. The country banks of the United States are not going to be hurt by the passage of any reserve provision requiring them to keep $2000 more on every $100,000 deposits in cash in their vaults.

Mr. Weeks. I do not disagree with you necessarily about the reserve requirements of this bill.

Mr. Dawes. And this bond feature is extremely important, because, in my judgment, unless in connection with the Aldrich Bill some provision is passed which gives an inducement to the banks, in the way of a larger return on a portion of their reserve than is given under the present law, they will not buy these bonds. But having this chance to carry them in their reserve makes it very probable, and in fact almost certain, that the banks in the next emergency will have on hand $134,999,800 of these bonds upon which they can take out emergency circulation; and they will have exchanged, probably, to get that kind of securities, a portion of the $714,000,000 of bonds and other securities which they now hold. It is no hardship for the banks of the United States as a whole to change a small proportion of their present bonds into bonds which will be available for circulation under this bill.

Mr. Weeks. Would you not rather have commercial paper as a basis for circulation than bonds?

Mr. Dawes. I would, a great deal; and if some provision of that kind could be enacted — if Mr. Fowler, for instance, with his ability and knowledge of this question, would devote his attention to making in some way commercial paper available as a deposit to secure this currency, or remedying those points of this bill in which he deems it defective, he would be doing the greatest service to our country at this time. But do not let us go into another panic without some way of getting money to pay the debts we owe.

Mr. Prince. Do you favor striking out all of the bond provisions of every kind and character and basing these notes upon commercial paper?

Mr. Dawes. Mr. Prince, you are asking now for my personal opinion. As long ago as 1900, I think it was, in one of my Reports to Congress I recommended that an emergency circulation be provided for without bond security, so heavily taxed — and I did not make the tax at any time over six per cent — that its retirement would be compelled as soon as the stringency was over. I do not differ with you theoretically on those things; and if you can get a bill through like that, without any security, subject to such a heavy tax (it is only going to be a temporary arrangement), I would be most certainly in favor of it. But the point I make is that we cannot get a general acquiescence in any law of that sort which changes the fundamental principle of our note issues, faulty as it is, defective as it is. I do not deny the force and efficacy of all these arguments which you make.

Mr. Waldo. If you would support with the same force and energy the opinions which you really have upon this question, instead of supporting, as you do now, something

which you believe is a mere makeshift, would you not do a great deal toward getting through proper legislation?

Mr. Dawes. I do not want that word "makeshift" used in regard to the Aldrich Bill. Nothing is a makeshift which will enable the banks of this country to increase their circulation in time of need to the extent of $121,000,000. The Government has about $67,000,000 on deposit in New York to-day; and since December 1 there has been $55,000,000 returned. That makes over $120,000,000. And see what good the use of that $120,000,000 did in New York! Why, it was life-blood at that time to the banking institutions in the West, as well as to the banking institutions there. Here is a provision, irrespective of the impounding of $67,000,000 lawful money, which would put $121,000,000 additional emergency currency into circulation, making a total of $189,729,000, which would be added to whatever relief could be obtained from the United States Treasury in the shape of government deposits.

I do not believe that if I or anybody else should go into a campaign for any kind of money except something which is based upon a security which the people regard as absolutely certain, we should make headway. I am far from being conceited enough to suppose that I have any special influence in the matter. But you people have done a wonderful work here on this committee, as I say, in the education of the people of the United States in correct banking principles. In my judgment, however, you are still a long way off from that consensus of opinion, even among yourselves, which will give any prospect of relief when times are good. So, I say, give us some relief at this time.

Mr. Waldo. Let me tell you this: I think this committee has been canvassed a good many times; and, so far as I know, there is not a single member of this committee that does not believe that the enactment of the Aldrich Bill will

be a very serious detriment to the whole business interests of the country, without regard to how it will affect the banks. I think that is the fact to-day. We did not start in with that opinion, by any means. There may be one or two that differ with us, but not more than that.

What I want to call your attention to is this: I think your opinions are not very different from those of other men who have studied this question. You believe that credit system of some kind is the only system that will ever put the banks in proper shape. It seems to me that a man of your ability and your experience and earnestness in this matter ought to devote his abilities to trying to enforce his real belief, instead of something that is not his real belief. That is what I want to call your attention to.

Mr. Dawes. In view of my rather forcible suggestions and conduct, that is a very mild and courteous rejoinder on your part; and I thank you.

Mr. Gillespie. I should like to have your opinion on the effect of the Aldrich Bill on the price of the securities described in the bill.

Mr. Dawes. That brings up just this point: The Treasurer of the United States has made some figures, based on the bill in its original form, as to the amount of these bonds that would be available, that could be purchased by the banks under the provisions of the Aldrich Bill. That was when the bill provided that they should only take the securities of towns of 20,000 inhabitants and upwards. The question of the price will depend upon the supply, you see. He estimated at that time, in a general way, that there were $1,765,821,218 of these municipal bonds and public bonds which they could buy under that old provision. The Aldrich Bill, as it has been amended, takes out that population restriction altogether and opens up nobody knows how much of a field. For instance, it will allow the

drainage district bonds and the park district bonds of Chicago to come in, and the bonds of towns all over the country.

Mr. Gillespie. And the bonds of school districts?

Mr. Dawes. Yes; school districts of all sorts. I asked Mr. Aldrich for his opinion about that matter, and he seemed to coincide in the opinion that $4,000,000,000 would not be an excessive estimate of the amount of bonds that would be available. Out of that amount the banks would have to purchase, in the first instance, about $135,000,000 of these bonds; and if they took the emergency circulation they would have to purchase more. But it would probably have some effect in appreciating the value of these municipal securities, which, with the public getting the benefit of it, is certainly not a public evil. Of course, they do not always get the benefit of it, but where they are issuing them they get the benefit of it in the increased demand.

Mr. Crawford. I would like to ask you this question, Mr. Dawes: In 1893 and 1894 the national banks reduced their circulation below $200,000,000 during the panic. During this panic they increased it up to $690,000,000, I believe. What is the difference between the conditions in 1893 and 1894 and the conditions in 1907 that made that difference in the amount of circulation the banks put out?

Mr. Dawes. Have you figures on that point? I do not recollect; but I can tell you something about one reason why the circulation was not increased. I discovered, when I was Comptroller of the Currency, — and Mr. Fowler, of the Currency Bureau, who is here, will bear me out in this, — that there were over $40,000,000 of orders for national bank-notes canceled because the Comptroller of the Currency did not have them on hand. The reason the Comptroller of the Currency did not have them on hand was this — and it shows how important in their general

effects little things sometimes are: He did not have them on hand because in the Treasury Department there was not a room big enough to hold them. It would have cost us probably $10,000 at some time in the past to enlarge the vault so as to provide room for them. On just the same principle, when the next panic comes up, if something is not done now, we will say: "Why, it would have been very easy at that time to have passed this remedial measure; but we could not get this bill just right, and we could not get that bill just right, and we did not do it, and so here we are." And that is just the way it was in regard to those notes.

Mr. Crawford. They are reducing their notes all the time.

Mr. Dawes. But I will tell you — it was not the panic which affected the national bank-notes at that time, because the banks, in the first place, could not get the notes out. A panic comes suddenly, and there is always a demand at such times for more notes. If the notes are printed, well and good; and they get them out. But you know we did not have the bond issues at that time, in 1893, that we have now. And, as Mr. Fowler points out in many of his addresses, the trouble with our bond-secured circulation is that it is the question of the profit to be had in the purchase and sale of these government bonds which secure them which largely determines the amount of circulation in existence in the country. It does not rise and fall in accordance with the natural laws of business. That is the point which he makes against this bond-secured system; and that is one reason, and I think a very strong reason, why he objects to the perpetuation of even a recognition of the system in connection with this Aldrich emergency plan. But at that time, prior to 1893, you will find, if you go back, that the amount of circulation that was out was dependent upon the fact that there was or was not a

profit to be had in the bonds at that time which justified them in taking out the circulation, whereas later —

Mr. Crawford. The premium was high?

Mr. Dawes. The premium was high; there were not so many of them, you know.

Mr. Crawford. In other words, they issue circulation only when it is profitable as a banking proposition?

Mr. Dawes. That is it.

Mr. Prince. Let me ask you one question, Mr. Dawes. Assume that this bill passes and becomes a law, and that a few days thereafter there is a necessity for using emergency currency thereunder. It has been stated to the committee that the machinery could not be put in order to carry out the provisions of the bill inside of from nine months to a year at least. What would be going on in the mean time?

Mr. Dawes. In the first place, I will answer that question by saying that you would not be hurt any, or materially (that is, we would not be any worse off, practically, then), than we shall be if you do not pass this bill. If you do pass it, the Secretary of the Treasury has not yet determined how long it will take to get the Treasury Department ready. I was talking to him about that yesterday.

Mr. Prince. What did you find out?

Mr. Dawes. He said that he had not yet been able to determine how long it would take to put this machinery in operation, and that there are very important requirements which should be included in this Aldrich Bill. You will have to see about your vault room. You do not want to pass this bill without some reference to vault room. If you do, you will be in the same fix that the Comptroller's Office was in 1893, when the small vault room was the cause of their being unable to supply $40,000,000 of orders

for notes which would have gone out in the panic, and would have helped to relieve the congestion that existed to that extent. Just think what $40,000,000 of currency would have meant to the banks of the United States at that time. But, Mr. Prince, if you will devote your abilities — and you have been a careful student of these things — to suggesting a few changes in the law which will enable the Secretary of the Treasury to get ready quicker, you will be doing the country a great service. I think you suggested reform on my part.

Mr. Prince. I think, generally, the people's efforts at reform are misdirected. Perhaps my efforts are misdirected. Now, we are in this position: Here is a great committee of the House that has presented to it a bill that was for four months in process of preparation before a very distinguished coördinate branch of this Government. They have presented to us a finished product that, I am frank to say to you, no human being dares to stand up before this committee and say he wants to have passed in the shape that that finished product is presented to us.

Mr. Dawes. Mr. Prince, do you ever regard a bill from the Senate of the United States, or a bill from the House of Representatives of the United States, as a finished product until it has passed and been considered by the other House in legislation?

Mr. Prince. No.

Mr. Dawes. Then, why do you call it a finished product?

Mr. Prince. I call it a finished product because it is the result of their deliberation, and of all of their deliberative machinery; and yet you say that provisions have not been properly made for several important things. I find here a statement in the Chicago *Tribune* of to-day, April 13, just coming to hand, which says: —

NATION-WIDE WAR ON ALDRICH BILL

Canvass of banks in the large cities shows practically every one opposed to Currency Act — Peril to commerce seen — Sections regarding reserves and restrictions of loans main cause of scores of protests

Then a list of thirty-seven cities is given — eleven banks out of the thirty-seven cities, including state banks and trust companies, favoring the measure; four hundred and ten banks — national banks — opposing the measure. We are presented with that situation.

Mr. Dawes. Mr. Prince, I do not know why you read newspaper articles of that sort as affecting the deliberations of a body of this sort. I read the speech that Senator La Follette made last week in connection with this Aldrich Bill, which did not seem to me to be a proper one for any one endeavoring properly and carefully to conserve the interests of the people to take as a model for a direction in the matter of legislative effort. The trouble with all this discussion is that public men seem to have one eye on a part of the people, another eye on the banks and on Congress, or something else.

Unquestionably the Aldrich Bill needs amendment in some of these essential particulars. But if we study the bill itself, irrespective of the newspaper comments on it, irrespective of the statements of those who are clearly anxious to exploit their own personalities through their advocacy or denunciation of the bill, and look at it from the business standpoint of the nation as a whole, and at this time make an effort to modify it as it needs, it will be a very beneficial thing.

I want to say that there is nothing that is a finished product in legislation under our form of government until it has passed both houses of Congress, and has been signed

by the President. The very purpose of having one House pass a bill and send it to the other is so that the House of Representatives may correct the deficiencies of the Senate, and the Senate may correct the deficiencies of the House. This is the first time I ever heard any member of the House of Representatives suggest that because a bill comes from the Senate it must therefore be considered a finished product.

The Chairman. But after the House has put its touches on the Senate product, would that be absolute proof that it was a finished product? [Laughter.]

Mr. Dawes. The absolute proof of the finished product would be the adoption of the conference report, the passage by both houses and the signing by the President of a bill which will let the banks of this country pay their debts in time of emergency. That is the fundamental thing involved in this matter. And as public-spirited men it is your duty, in any way you can, to reconcile these differences and give up the discussion of radical measures which cannot be passed now and get behind this simple, practical proposition of giving the business men of this country relief.

Mr. Prince. The reason I read that heading from the newspaper article was that it has just come to hand. It is not an old paper; it is dated Monday, April 13, 1908, and this, I think, is about Tuesday. It is pretty fresh. I must confess that I am governed in my actions by the people that I try to represent; and if I find the banking interests of this country unanimously opposed to a measure, it is at least notice for me to halt and find out what is the right thing to do.

Mr. Dawes. To halt and look into it?

Mr. Prince. Yes; that is what I am doing. Now, what is your answer to this? If I am in doubt, what do you say as to these four hundred and ten banks?

Mr. Dawes. I have commented on that in the beginning of my speech, and endeavored to show here at considerable length (all of which you will find in my argument) why the statements of the Chicago Clearing-House resolution, which is the model upon which the banks of almost this entire country have drawn up their resolutions, are incorrect. I have been engaged in the joint debate there. I have been pulled by the ears into this controversy. It is not a pleasant thing for me to come here and speak in opposition to what seems to be the judgment of my fellow bankers and my personal friends in the city of Chicago. It is no welcome task for me. But I got into this debate in connection with that statement of the Chicago Clearing-House, which was sent out by thousands all over the United States, and which alarmed the people of this country. And I maintain that, until an argument has been made on the other side, this expression of sentiment on the part of the bankers of the United States is not a permanent one. It is based upon wrong deductions from the bill. It is based upon deductions, as I explained, from the December 3d statement of the national banks instead of the February 14th statement.

I went out to Lincoln, Nebraska, the other day, and came from there here. They handed me a resolution of the Lincoln Clearing-House Association in which they referred to this "one-billion-dollar loan contraction." I do not think that the drawing of that resolution such a short time after the passage of the Chicago resolution we can regard as a mere coincidence — that is, the "one-billion-dollar loan contraction." But, starting with Chicago, starting with one of the great leaders in advanced banking methods in the United States (and, from his standpoint, better methods), and taking it up to the American Bankers' Association, all of them supporters and advocates of these radical remedies (and they may be better, I am not argu-

ing that), this mistake in taking the national bank statement of December 3d has produced an erroneous impression among the bankers of this country. And I would not hesitate at all to take any ordinary group of bankers and lay before them both sides of this question — the reserve question and all the other questions connected with the Aldrich Bill — and feel sure that on the essential points I would not find that practically unanimous condition of sentiment. To be sure, in connection with the provision as to directors, the banks as a whole, and the people as a whole, ought to be opposed to it. But the bill at this point can be amended, and can be corrected in other essentials.

The Chairman. There were to my knowledge but two different associations (commercial bodies, chambers of commerce, or anybody that represented anybody else) that ever approved this bill from the start. One was a body at Louisville, which has since retracted it. The other one is at Omaha, and they write me they would retract if the man was there who was the inspiration of getting up their approval. So that would leave the bill from its birth up to the present date without a single supporter in the way of a commercial body.

Mr. Dawes. Mr. Fowler, is that any excuse for you and the other members of the Banking and Currency Committee to cease making an effort to correct the bill so that it will be satisfactory to these people, if it can be done with due regard to the public interests, and so that the people of this country and the banks of this country can have the benefit of an emergency circulation in time of panic?

The Chairman. I can bring you in a stack that high [indicating] of protests against it. I think there are two or three letters in favor of it from the start of this thing, and we will bring them here if the committee wants them. They are against the bill because it is fundamentally wrong.

Mr. Dawes. I disagree, Mr. Fowler, with that. There is not that widespread interest in the financial question from the theoretical standpoint.

The Chairman. It is not theoretical.

Mr. Dawes. The objects of this bill are all practical.

The Chairman. They have learned their lessons now.

Mr. Dawes. Yes; they have learned their lessons now. That is just the point. For instance, in connection with this clause in regard to directors, what proportion of the objections to this bill should you estimate come from these people because of the inclusion of that clause, which can and should be omitted?

The Chairman. But all of these people had sent their protests in before that. The Chicago people had entered a protest before that, and everybody else had.

Mr. Dawes. Suppose that they all protested, and suppose that all of the members of these associations had made a study of this question — would that relieve you from properly making an effort to have this bill amended so as to secure an emergency circulation for the country?

The Chairman. I do not think there is any such thing in the world.

Mr. Dawes. I do not want to get into a discussion of the emergency circulation of the Bank of Germany on this point.

The Chairman. There is not a thing in it in Germany, Mr. Dawes. Take the five per cent tax; there is nothing in it whatever. Take the three years before they increased it, in 1900, and the three years afterwards, and you will find that the five per cent had absolutely no effect whatever on it. They copied that, as Mr. White well said here two or three days ago, from the instances where the Bank of England Act had been suspended and imposed a high tax. They copied a blunder.

Mr. Dawes. That has been the trouble, Mr. Fowler, with this whole currency debate — it is so cumbered with references to foreign countries and foreign systems which, however relevant, obscure the main issue. That issue at this time ought to be a simple one — some simple device to relieve us of the necessity of repudiation in time of panic. You may call it a makeshift if you want to, but the people of the United States want relief. They are not going to get it by any radical bills, and they are not going to be enlightened by economic discussions of these other banking systems.

The Chairman. I believe with you that we want to do a simple thing; and do you know what I think it is? It is to get right; to stop going wrong.

Mr. Dawes. Therefore, I hope you will do what you can to get this Aldrich Bill passed when properly modified.

Mr. Glass. Can you imagine a more dreary prospect for a measure than there seems to be for the Aldrich Bill now, with every member of the Banking and Currency Committee against it?

Mr. Dawes. I am very sorry to say that any banking bill seems to have a dreary prospect in the Banking and Currency Committee when it comes to the matter of securing a consensus of opinion upon it.

Mr. Glass. But we have reported a bill from this committee.

Mr. Dawes. I do not know what the chances of that bill are.

Mr. Weeks. Mr. Chairman, I move that the thanks of the committee be extended to Mr. Dawes.

(The motion was unanimously carried.)

THE BANKING POWER OF THE MIDDLE WEST: WHY CHICAGO IS GREAT AS A BANKING CENTER

(The World Today, September, 1909)

The growth of the banking power of the Middle West since 1890 is remarkable and does much to explain the increase in the banking power and prestige of the city of Chicago. There is a growing tendency on the part of country banks of this section to keep a larger portion of their reserve balances with Chicago banks. Consequently the growth of this power in the city has been further accelerated by the natural attraction which the greater banking power of Chicago creates for the keeping of this larger proportion of reserve deposits in the city, the natural reserve center of this section.

The recent consolidations of banking interests in Chicago will have a tendency to increase the amount of reserve banking done by country banks here, for, as our banks come to approximate in size some of the leading banks in New York, and conditions become more equal in other regards, the accessibility of Chicago, and the greater convenience with which business can be transacted near home, becomes to a larger degree the determining element in the placing of such balances on the part of the country banks of the Middle West.

In conjunction with my secretary, Mr. B. F. Blye, formerly of the Office of the Comptroller of Currency, I have been making an investigation as to this growth in banking power in the Middle West as well as in the United States

as a whole. The banking power is made up of the capital stock, surplus, undivided profits, individual deposits, and, in the case of the national banks, the circulation outstanding and government deposits. For the United States this amounted in 1890 to $5,150,000,000; in 1900 to $10,685,000,000 and in 1908 to $17,642,000,000.

As indicating the banking power of the Middle West, I have included returns from the States of Ohio, Indiana, Illinois, Tennessee, Kentucky, Michigan, Wisconsin, Minnesota, North Dakota, South Dakota, Iowa, Kansas, Nebraska, Missouri, Oklahoma, and Arkansas, — sixteen States, — all of which lie wholly or in part within a circle with a radius of approximately five hundred miles, with the city of Chicago as a center. These States have an area of a little less than one third that of the United States, exclusive of Alaska and the island possessions. Their population, according to the Census of 1900, forms about forty-two per cent of the total of the United States.

In 1890, the banking power of these States amounted to $1,429,319,000, or 27.75 per cent of the entire banking power of the United States. In 1900, it amounted to $2,278,617,000, or 21.3 per cent of the total for the entire country. In 1908, the banking power of this section amounted to $4,988,244,000, being 28.32 per cent of that for the entire United States.

The following comparison seems to me of great significance as indicating the recent rapid growth in the wealth of the agricultural sections of the United States, as well as indicating the foundation for the general statements made in the beginning of this article. In 1900, the percentage of increase in the banking power of the States named above over 1890 was 59.41, the increase in the total banking power of the United States for the same period being 107.47 per cent. The gain in percentage of the

growth of these Middle States in 1908 over 1890 was 249.05 per cent, while the gain for the United States as a whole in banking power for 1908 over 1890 was 242.58 per cent. However, the gain in the banking power of the Middle West for the last eight years — 1908 over 1900 — was at the rate of 118.96 per cent, whereas the gain in the banking power of the United States as a whole, as compared with this, was 65.11 per cent.

The volume of clearings of banks in the States enumerated is as follows: For 1890, $8,960,000,000; for 1900, $14,331,000,000; and for 1908, $25,188,000,000; showing a percentage of gain in clearings for 1900 over 1890 of 60.5 per cent, for 1908 over 1890 of 181.12 per cent, and for 1908 over 1900 of 75.76 per cent.

A table is inserted herewith showing the volume of the various items making up the banking power of the States before named for the years 1890, 1900, and 1908, together with their percentages of increase in such items; also a table showing the volume of banking power by classes of banks, which I think will be found most instructive.

Table showing the various items making up the banking power for 1890, 1900, and 1908, and the percentages of increases for the different periods

	1890	*1900*	*1908*	*Per cent of gain of 1900 over 1890*	*Per cent of gain of 1908 over 1890*	*Per cent of gain of 1908 over 1900*
Capital	$360,984	$361,447	$647,270	0.13	79.02	79.2
Surplus	81,771	96,744	266,260	18.51	228.39	177.09
Undivided profits	40,901	50,720	121,156	25.00	202.5	142.
Individual deposits	895,080	1,656,835	3,683,479	85.03	311.51	122.40
Governm't deposits	12,748	26,624	48,702	116.66	300.00	84.62
Circulation	37,835	86,247	221,156	132.43	497.29	156.98
Total	$1,429,319	$2,278,617	$4,988,244	59.41	249.05	118.96

Table showing the banking power of the Middle West by classes of banks and the percentage of increase for these periods

Class of Banks	1890	1900	1908	Per cent of gain of 1900 over 1890	Per cent of gain of 1908 over 1890	Per cent of gain of 1908 over 1900
National	$818,798	$1,192,951	$2,324,430	45.72	184.11	94.966
State	334,964	845,252	2,075,823	152.99	521.26	145.56
Loan & Trust Co	16,611	11,544	211,399	45.45	1,218.75	1,818.18
Private	117,589	88,351	123,408	32.95	.051	39.77
Savings	141,357	140,519	253,185	.006	80.71	80.71
Total	$1,429,319	$2,278,617	$4,988,244	59.41	249.05	118.96

Table showing the banking power by States of the Middle West for 1890, 1900, and 1908 and percentages of increases for those periods

States	1890	1900	1908	Per cent of gain of 1900 over 1890	Per cent of gain of 1908 over 1890	Per cent of gain of 1908 over 1900
Arkansas	$6,841	$11,475	$36,262	83.33	500.00	227.27
Kentucky	92,151	108,642	179,806	17.39	94.56	65.74
Tennessee	45,824	48,840	134,249	6.66	197.77	179.17
Ohio	221,824	406,908	861,052	83.71	289.59	112.07
Indiana	75,451	133,350	325,570	77.33	333.33	144.36
Illinois	216,276	485,724	1,012,468	124.54	368.52	108.67
Michigan	120,647	201,722	368,138	67.50	206.66	83.08
Wisconsin	81,610	148,884	272,148	82.71	235.80	83.79
Minnesota	97,287	123,679	289,506	26.80	289.28	134.96
Iowa	100,759	172,843	397,011	72.00	297.00	130.81
Missouri	168,474	221,231	517,135	31.54	207.74	133.94
North Dakota	8,672	15,325	62,793	87.50	675.00	313.33
South Dakota	14,150	20,306	71,683	42.85	407.14	255.00
Nebraska	103,957	84,461	181,662	22.62	75.73	115.48
Kansas	73,178	81,651	188,070	10.96	157.53	132.09
Oklahoma	818	13,576	90,696	1,559.66	10,987.53	592.30
Total	$1,429,319	$2,278,617	$4,988,244	59.41	249.05	118.96

In the table showing the banking power by States a number of interesting instances develop, as for example, the gain in the State of Oklahoma for 1908 over 1900 is found to be 592.2 per cent. The gain in this State in banking power for 1908, as compared with 1890, a period of eighteen years, is 10,987.53 per cent.

A table is appended showing the banking power in the States mentioned above for the years 1890, 1900, and 1908, and the percentages of increase during those periods.

It is well to say in connection with those figures that for 1890 the reports received from state banks, loan and trust companies, private banks and savings banks were not complete and in many cases careful estimates were made based on the few reports received. For 1900 and 1908, however, the returns made to the Comptroller of the Currency were more nearly complete, and the figures given for those years are much more exact.

THE END

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ESSAYS AND SPEECHES

BY

CHARLES G. DAWES